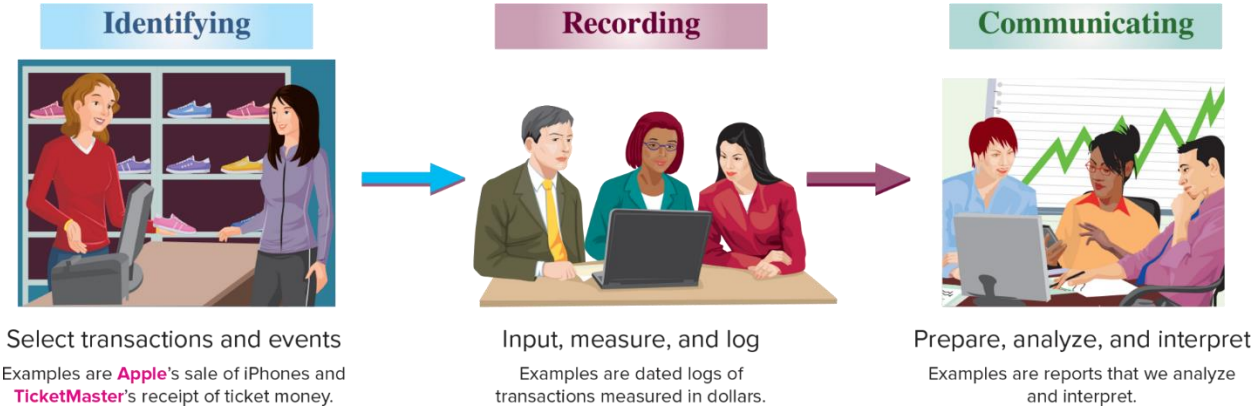
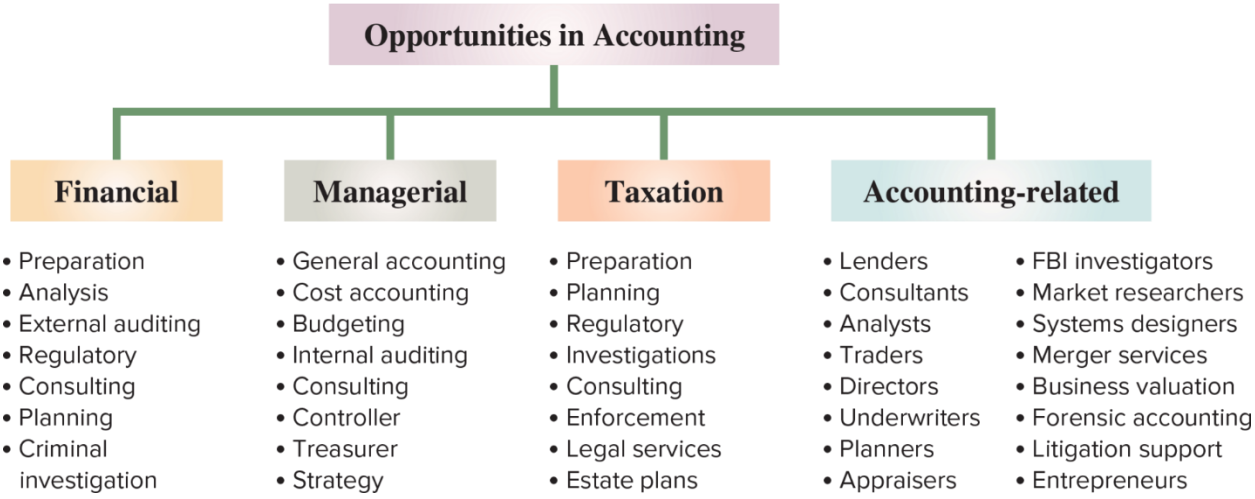
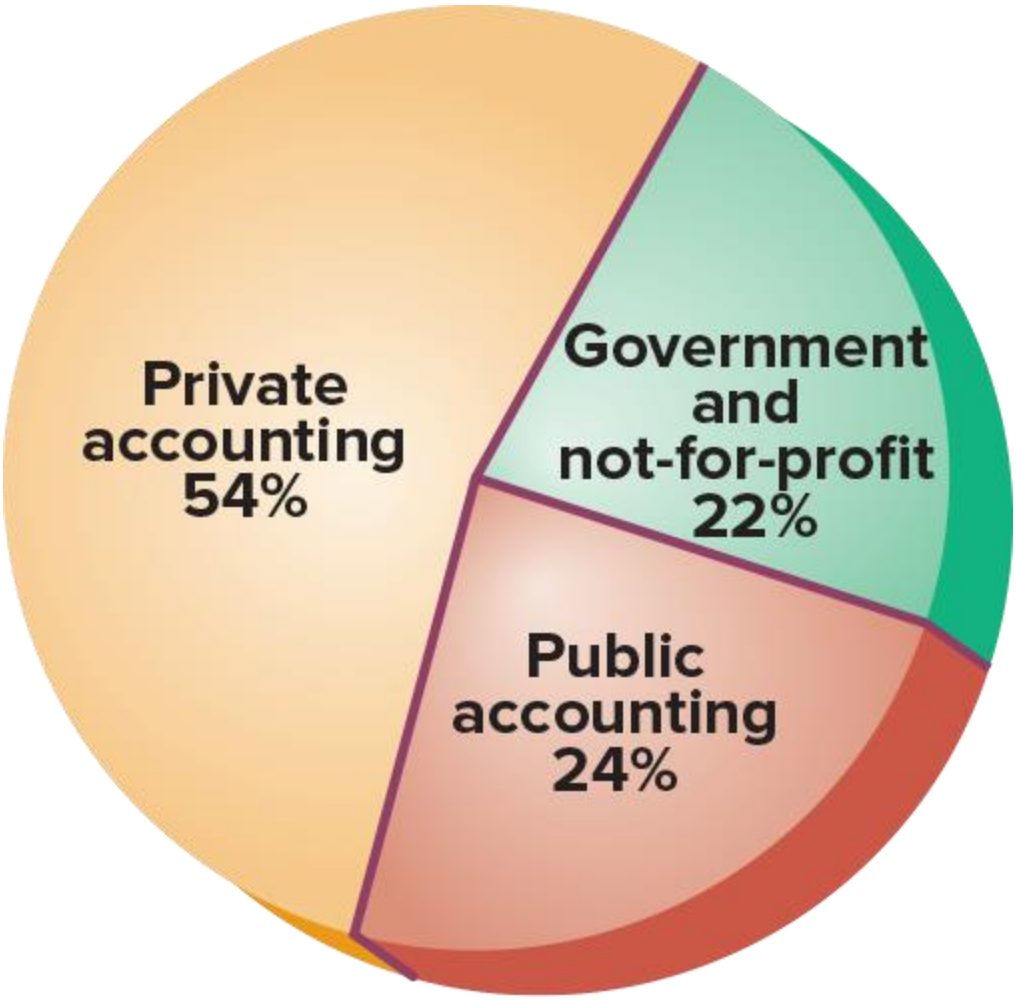
IMPORTANCE OF ACCOUNTING C1 Explain the importance of accounting and identify its users. Why is accounting so popular on campus? Why are there so many openings for accounting jobs? Why is accounting so important to companies? The answer is that we live in an information age in which accounting information impacts us all. Accounting is an information and measurement system that identifies, records, and communicates an organization's business activities. Exhibit 1.1 shows these accounting functions. EXHIBIT 1.1 Accounting Functions Our most common contact with accounting is through credit checks, checking accounts, tax forms, and payroll. These experiences focus on recordkeeping, or bookkeeping, which is the recording of transactions and events. This is just one part of accounting. Accounting also includes analysis and interpretation of information. Page 4 Users of Accounting Information Accounting is called the language of business because it communicates data that help people make better decisions. People using accounting information are divided into two groups: external users and internal users. Financial accounting focuses on the needs of external users, and managerial accounting focuses on the needs of internal users. External Users External users of accounting information do not directly run the organization and have limited access to its accounting information. These users get accounting information from general-purpose financial statements. Following is a partial list of external users and decisions they make with accounting information. Lenders (creditors) loan money or other resources to an organization. Banks, savings and loans, and mortgage companies are lenders. Lenders use information to assess if an organization will repay its loans. Shareholders (investors) are the owners of a corporation. They use accounting reports to decide whether to buy, hold, or sell stock. External (independent) auditors examine financial statements to verify that they are prepared according to generally accepted accounting principles. Nonmanagerial and nonexecutive employees and labor unions use external information to bargain for better wages. Regulators have legal authority over certain activities of organizations. For example, the Internal Revenue Service (IRS) requires accounting reports for computing taxes. Voters and government officials use information to evaluate government performance. Contributors to nonprofits use information to evaluate the use and impact of donations. Suppliers use information to analyze a customer before extending credit. Customers use financial reports to assess the stability of potential suppliers. Point: The largest accounting firms are EY, KPMG, PwC, and Deloitte. Internal Users Internal users of accounting information directly manage the organization. Internal reports are designed for the unique needs of managerial or executive employees, such as the chief executive officer (CEO). Following is a partial list of internal users and decisions they make with accounting information. Purchasing managers need to know what, when, and how much to purchase. Human resource managers need information about employees' payroll, benefits, and performance. Production managers use information to monitor costs and ensure quality.

Distribution managers need reports for timely and accurate delivery of products and services. Marketing managers use reports to target consumers, set prices, and monitor consumer needs. Service managers use reports to provide better service to customers. Research and development managers use information on projected costs and revenues of innovations. Opportunities in Accounting Accounting has four areas of opportunities: financial, managerial, taxation, and accounting-related. Exhibit 1.2 lists selected opportunities in each area. EXHIBIT 1.2 Accounting Opportunities Exhibit 1.3 shows that the majority of opportunities are in private accounting, which are employees working for businesses. Public accounting involves accounting services such as auditing, taxation, and advisory services. Opportunities also exist in government and not-for-profit agencies, including business regulation and law enforcement. Page 5 EXHIBIT 1.3 Accounting Jobs by Area Accounting specialists are highly regarded, and their professional standing is often denoted by a certificate. Certified public accountants (CPAs) must meet education and experience requirements, pass an exam, and be ethical. Many accounting specialists hold certificates in addition to or instead of the CPA. Two of the most common are the certificate in management accounting (CMA) and the certified internal auditor (CIA). Employers want specialists with designations such as certified bookkeeper (CB), certified payroll professional (CPP), certified fraud examiner (CFE), and certified forensic accountant (CrFA). Accounting specialists are in demand. Exhibit 1.4 reports average annual salaries for several accounting positions. Salaries vary based on location, company size, and other factors. EXHIBIT 1.4 Accounting Salaries Public Accounting Salary Partner $245,000 Manager (6–8 years) 112,000 Senior (3–5 years) 90,000 Junior (0–2 years) 62,500 Private Accounting Salary CFO $290,000 Controller/Treasurer 180,000 Manager (6–8 years) 98,500 Senior (3–5 years) 81,500 Junior (0–2 years) 60,000 Recordkeeping Salary Full-charge bookkeeper $60,500 Accounts manager 58,000 Payroll manager 59,500 Accounting clerk (0–2 years) 39,500 Artificial Intelligence in Accounting Some estimate that artificial intelligence (AI) could replace 40% of today's workforce in the next decade. Repetitive tasks such as entering invoice and transaction data will be done by AI and software. This trend toward more AI integration bodes well for those with accounting knowledge. Accountants will be needed to help develop advanced AI systems and to analyze reports and graphics created by AI systems. Because employers recognize these valuable skills, accounting is consistently ranked among the top professions in terms of both future demand and future earnings. Data Analytics and Visualization in Accounting Data analytics and data visualization are among the top skills sought by employers. Data analytics is a process of analyzing data to identify meaningful relations and trends. Data visualization is a graphical presentation of data to help people understand their significance. In accounting, data analytics and visualization help individuals make informed business decisions. Dr Pepper Snapple Group uses data analytics and

visualization to send accounting information to its sales route staff via an app in real time. Staff then make data-driven decisions on what sales and promotions to offer retailers. Tableau Dashboard Activities in Connect offer the opportunity to begin developing such skills. Page 6 NEED-TO-KNOWs have students apply key procedures and concepts; each NTK has a video walkthrough NEED-TO-KNOW 1-1 Accounting Users C1 Identify the following users of accounting information as either an (a) external or (b) internal user. Regulator CEO Shareholder Marketing manager Executive employee External auditor Production manager Nonexecutive employee Bank lender Solution 1. a 2. b 3. a 4. b 5. b 6. a 7. b 8. a 9. a Do More: QS 1-1, QS 1-2, E 1-1, E 1-2, E 1-3


Identifying
Recording
Communicating
Select transactions and events
Examples are Apple's sale of iPhones and TicketMaster's receipt of ticket money.
Input, measure, and log
Examples are dated logs of transactions measured in dollars.
Prepare, analyze, and interpret
Examples are reports that we analyze and interpret.





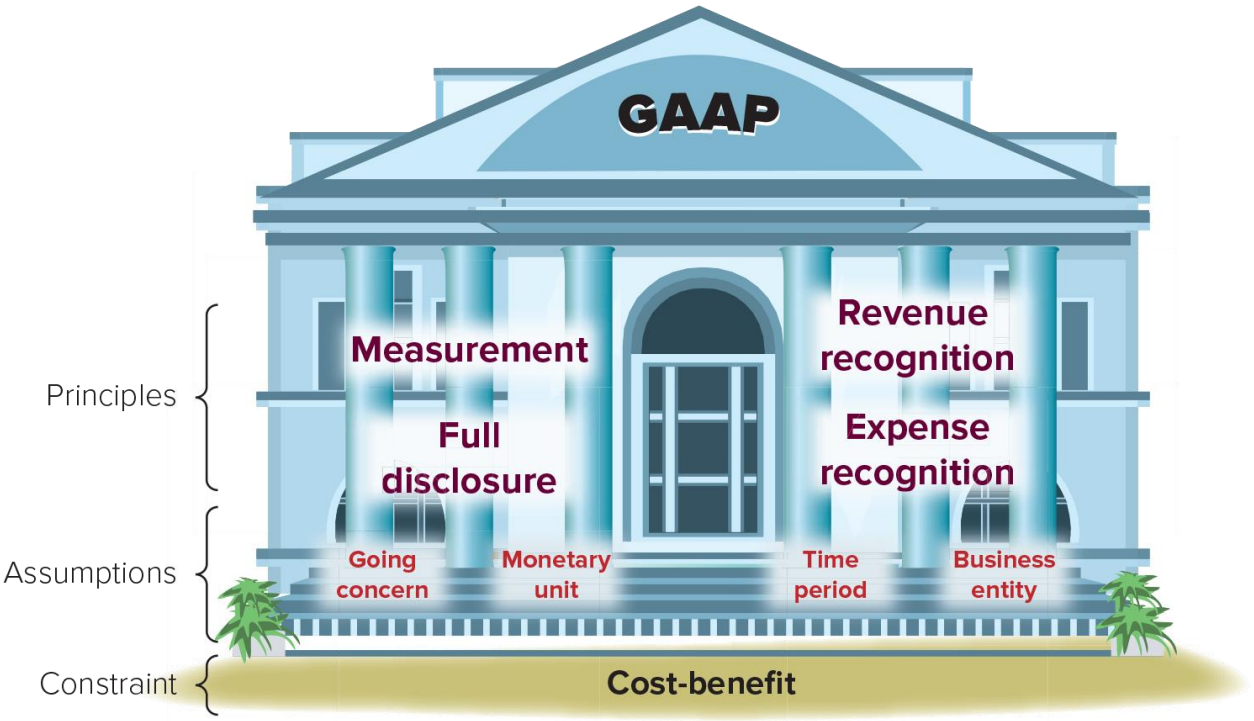
FUNDAMENTALS OF ACCOUNTING C2 Describe the importance of ethics and GAAP. Ethics—A Key Concept For information to be useful, it must be trusted. This demands ethics in accounting. Ethics are beliefs that separate right from wrong. They are accepted standards of good and bad behavior. Accountants face ethical choices as they prepare financial reports. These choices can affect the salaries and bonuses paid to workers. They even can affect the success of products and services. Misleading information can lead to a bad decision that harms workers and the business. There is an old saying: Good ethics are good business. Exhibit 1.5 gives a three-step process for making ethical decisions. EXHIBIT 1.5 Ethical Decision Making Fraud Triangle: Ethics under Attack The fraud triangle shows three factors that push a person to commit fraud. Opportunity. A person must be able to commit fraud with a low risk of getting caught. Pressure, or incentive. A person must feel pressure or have incentive to commit fraud. Rationalization, or attitude. A person justifies fraud or does not see its criminal nature. The key to stopping fraud is to focus on prevention. It is less expensive and more effective to prevent fraud from happening than it

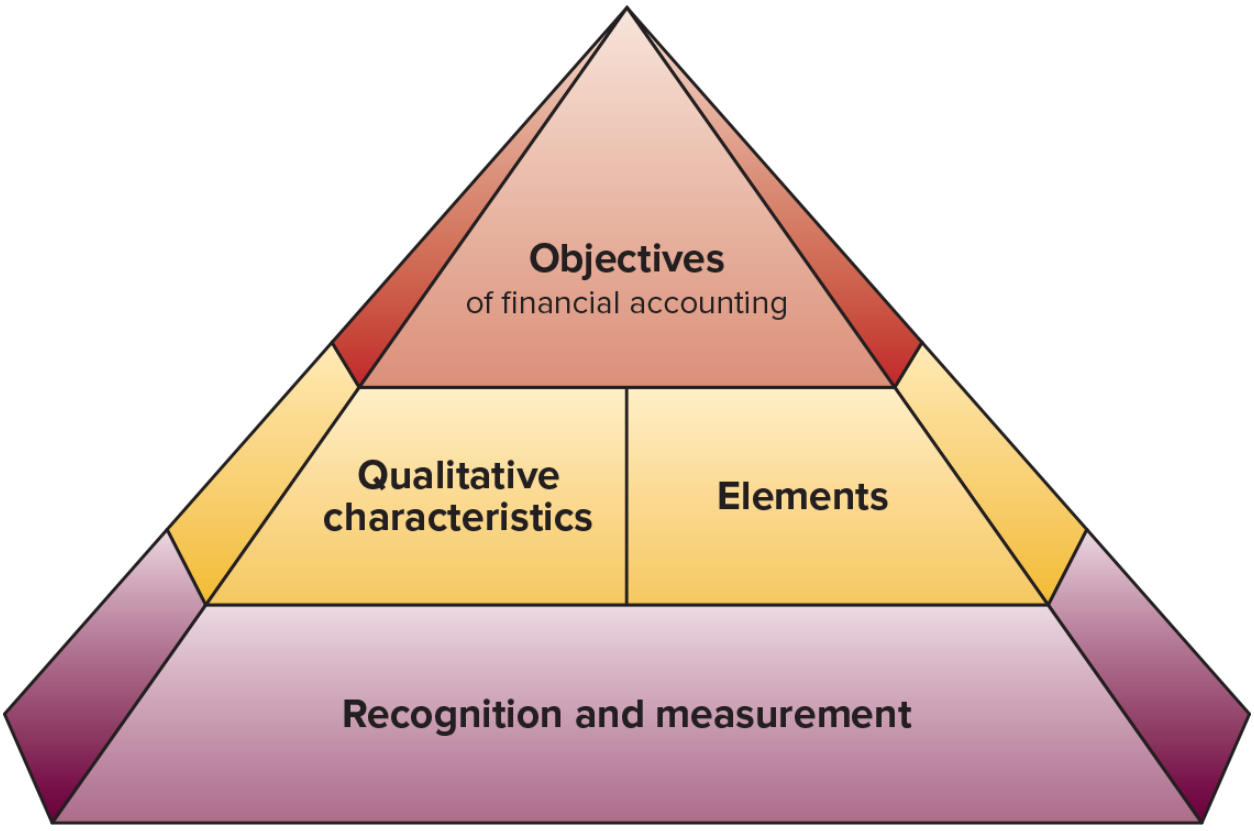
is to detect it. To help prevent fraud, companies set up internal controls. Internal controls are procedures to protect assets, ensure reliable accounting, promote efficiency, and uphold company policies. Examples are good records, physical controls (locks), and independent reviews. Auditors verify the effectiveness of internal controls. Generally Accepted Accounting Principles Financial accounting is governed by concepts and rules known as generally accepted accounting principles (GAAP). GAAP wants information to have relevance and faithful representation. Relevant information affects decisions of users. Faithful representation means information accurately reflects the business results. Page 7 The Financial Accounting Standards Board (FASB) is given the task of setting GAAP from the Securities and Exchange Commission (SEC). The SEC is a U.S. government agency that oversees proper use of GAAP by companies that sell stock and debt to the public. An audit examines whether financial statements are prepared using GAAP. International Standards Our global economy demands comparability in accounting reports. The International Accounting Standards Board (IASB) issues International Financial Reporting Standards (IFRS) that identify preferred accounting practices. These standards are similar to, but sometimes different from, U.S. GAAP. The FASB and IASB are working to reduce differences between U.S. GAAP and IFRS. Conceptual Framework The FASB conceptual framework in Exhibit 1.6 consists of the following. EXHIBIT 1.6 Conceptual Framework Objectives—to provide information useful to investors, creditors, and others. Qualitative characteristics—to require information that has relevance and faithful representation. Elements—to define items in financial statements. Recognition and measurement—to set criteria for an item to be recognized as an element; and how to measure it. Principles, Assumptions, and Constraint There are two types of accounting principles (and assumptions). General principles are the assumptions, concepts, and guidelines for preparing financial statements; these are shown in purple font in Exhibit 1.7, along with key assumptions in red font. Specific principles are detailed rules used in reporting business transactions and events; they are described as we encounter them. EXHIBIT 1.7 Building Blocks for GAAP Accounting Principles There are four general principles. Measurement principle (cost principle) Accounting information is based on actual cost. Cost is measured on a cash or equal-to-cash basis. This means if cash is given for a service, its cost is measured by the cash paid. If something besides cash is exchanged (such as a car traded for a truck), cost is measured as the cash value of what is given up or received. Information based on cost is considered objective. Objectivity means that information is supported by independent, unbiased evidence. Later chapters cover adjustments to market and introduce fair value. Revenue recognition principle Revenue is recognized (1) when goods or services are provided to customers and (2) at the amount expected to be received from the customer. Revenue (sales) is the amount received from selling products and services. The amount received is usually in cash, but it also can be a customer’s promise to pay at a

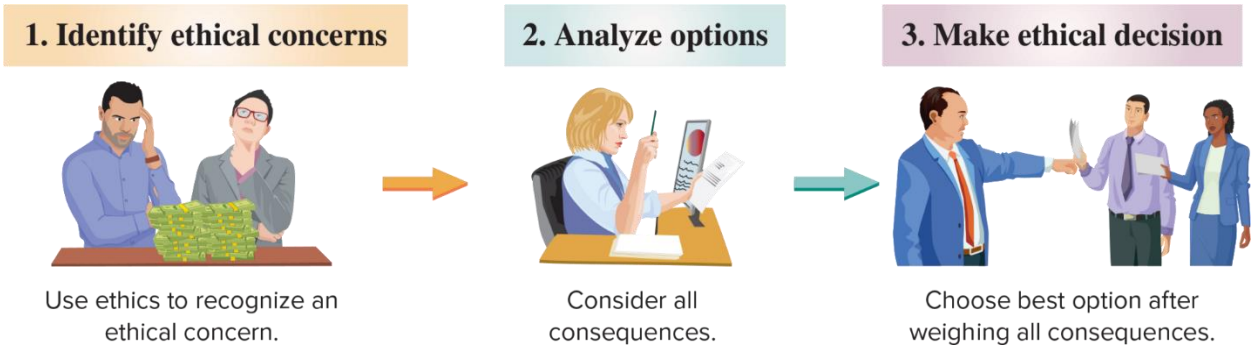
future date, called credit sales. (To recognize means to record it.) Expense recognition principle (matching principle) A company records the expenses it incurred to generate the revenue reported. An example is rent costs of office space.Page 8 Full disclosure principle A company reports the details behind financial statements that would impact users' decisions. Those disclosures are often in footnotes to the statements. Point: A company pays $500 for equipment. The cost principle requires it be recorded at $500. It makes no difference if the owner thinks this equipment is worth $700. Example: A lawn service bills a customer $800 on June 1 for two months of mowing (June and July). The customer pays the bill on July 1. When is revenue recorded? Answer Start revealed content. It is recorded over time as it is earned; record $400 revenue for June and $400 for July. Example: Credit cards are used to pay $200 in gas for a lawn service during June and July. The cards are paid in August. When is expense recorded? Answer Start revealed content. If revenue is earned over time, record $100 expense in June and $100 in July. Accounting Assumptions There are four accounting assumptions. Going-concern assumption Accounting information presumes that the business will continue operating instead of being closed or sold. This means, for example, that property is reported at cost instead of liquidation value. Monetary unit assumption Transactions and events are expressed in monetary, or money, units. Examples of monetary units are the U.S. dollar and the Mexican peso. Time period assumption The life of a company can be divided into time periods, such as months and years, and useful reports can be prepared for those periods. Business entity assumption A business is accounted for separately from other business entities and its owner. Exhibit 1.8 describes four common business entities. EXHIBIT 1.8 Attributes of Businesses Table Summary: A table. Sole Proprietorship Partnership Corporation Limited Liability Company (LLC) Number of owners 1 owner; easy to set up. 2 or more, called partners; easy to set up. 1 or more, called shareholders; can get many investors by selling stock or shares of corporate ownership.* 1 or more, called members. Business taxation No additional business income tax. No additional business income tax. Additional corporate income tax. No additional business income tax. Owner liability Unlimited liability. Owner is personally liable for proprietorship debts. Unlimited liability. Partners are jointly liable for partnership debts. Limited liability. Owners, called shareholders (or stockholders), are not liable for corporate acts and debts. Limited liability. Owners, called members, are not personally liable for LLC debts. Legal entity Not a separate legal entity. Not a separate legal entity. A separate entity with the same rights and responsibilities as a person. A separate entity with the same rights and responsibilities as a person. Business life Business ends with owner death or choice. Business ends with a partner death or choice. Indefinite. Indefinite. *When a corporation issues only one class of stock, it is called common stock (or capital stock). Accounting Constraint The cost-benefit constraint, or cost constraint, says that information disclosed by an entity must have benefits to the user that are greater than the

costs of providing it. Materiality, or the ability of information to influence decisions, is also sometimes mentioned as a constraint. Conservatism and industry practices are sometimes listed as well. Decision Ethics boxes are role-playing exercises that stress ethics in accounting Decision Ethics Entrepreneur You and a friend develop a new design for ice skates that improves speed but increases risk of injury. You plan to form a business to manufacture and sell the skates. You and your friend want to minimize taxes, but your big concern is potential lawsuits from customers who might be injured on these skates. What form of organization do you set up? ■ Answer Page 9 NEED-TO-KNOW 1-2 Accounting Guidance C2 Part 1: Identify the accounting principle or assumption that best reflects each situation. AAA Painting performs services for a customer. AAA records revenue this period even though the customer is not billed until next period. Ming Studios purchases camera equipment for $12,000 cash. The owner thinks the equipment is worth $18,000. The equipment is recorded at $12,000. Alfonso owns Consulting LLC. Alfonso keeps personal expenses separate from LLC expenses. Solution Revenue recognition principle Measurement principle Business entity assumption Part 2: Recommend a business entity type in each situation. An entrepreneur is deciding between a sole proprietorship and an LLC. Two goals are to pay no additional business income tax and to have limited liability. An entrepreneur is deciding between a partnership and a corporation. Two goals are the ability to add many investors by selling shares of ownership and a business with an indefinite life. Solution a. LLC b. Corporation Do More: QS 1-3, QS 1-4, QS 1-5, QS 1-6, E 1-4, E 1-5, E 1-6, E 1-7, E 1-8

Tax Services


GAAP
Principles
Measurement
Full disclosure
Revenue recognition
Expense recognition
Assumptions
Going concern
Monetary unit
Time period
Business entity
Constraint
Cost-benefit


Objectives
of financial accounting
Qualitative characteristics
Elements
Recognition and measurement


1. Identify ethical concerns
2. Analyze options
3. Make ethical decision
Use ethics to recognize an ethical concern.
Consider all consequences.
Choose best option after weighing all consequences.

BUSINESS TRANSACTIONS AND ACCOUNTING A1 Define and interpret the accounting equation and each of its components. Accounting shows two basic aspects of a company: what it owns and what it owes. Assets are resources a company owns or controls. The claims on a company's assets—what it owes—are separated into owner (equity) and nonowner (liability) claims. Together, liabilities and equity are the source of funds to acquire assets. Assets Assets are resources a company owns or controls. These resources are expected to yield future benefits. Examples are web servers for an online services company, musical instruments for a rock band, and land for a vegetable grower. Assets include cash, supplies, equipment, land, and accounts receivable. A receivable is an asset that promises a future inflow of resources. A company that provides a service or product on credit has an account receivable from that customer. Point: "On credit" and "on account" mean cash is received or paid at a future date. Liabilities Liabilities are creditors' claims on assets. These claims are obligations to provide assets, products, or services to others. A payable is a liability that promises a future outflow of resources. Examples are wages payable to workers, accounts payable to suppliers, notes (loans) payable to banks, and taxes payable. Equity Equity is the owner's claim on assets and is equal to assets minus liabilities. Equity is also called net assets or residual equity. Accounting Equation The relation of assets, liabilities, and equity is shown in the following accounting equation. The accounting equation applies to all transactions and events, to all companies and organizations, and to all points in time. Point: This equation can be rearranged. Example: Assets − Liabilities = Equity Page 10 Equity has four parts as shown in the expanded accounting equation. We see that equity increases from owner investments and from revenues. It decreases from owner withdrawals and from expenses. These four parts of equity follow. Owner, Capital Owner investments are inflows of cash and other net assets from owner contributions, which increase equity. Owner, Withdrawals Owner withdrawals are outflows of cash and other assets to owners for personal use, which reduce equity. Revenues Revenues increase equity (via net income) from sales of products and services to customers; examples are sales of products, consulting services provided, facilities

rented to others, and commissions from services. Expenses Expenses decrease equity (via net income) from costs of providing products and services to customers; examples are costs of employee time, use of supplies, advertising, utilities, and insurance fees. NEED-TO-KNOW 1-3 Accounting Equation A1 Part 1: Use the accounting equation to compute the missing financial statement amounts. Table Summary: A table.
Company Assets Liabilities Equity Bose $150 $ 30 $ (a) Vogue $ (b) $100 $300 Solution $120 $400 Part 2: Use the expanded accounting equation to compute the missing financial statement amounts. Table Summary: A table. Company Assets Liabilities Owner, Capital Owner, Withdrawals Revenues Expenses Tesla $200 $ 80 $100 $ 5 $ (a) $40 YouTube $400 $160 $220 $ (b) $120 $90 Solution a. $65 b. $10 Do More: QS 1-7, QS 1-8, E 1-9, E 1-10, E 1-11 Transaction Analysis P1 Analyze business transactions using the accounting equation. Business activities are described in terms of transactions and events. External transactions are exchanges of value between two entities, which cause changes in the accounting equation. An example is the sale of the AppleCare Protection Plan by Apple. Internal transactions are exchanges within an entity, which may or may not affect the accounting equation. An example is Target's use of its supplies, which are reported as expenses when used. Events are happenings that affect the accounting equation and are reliably measured. They include business events such as changes in the market value of certain assets and liabilities and natural events such as fires that destroy assets and create losses. Page 11 This section uses the accounting equation to analyze 11 transactions and events of FastForward, a start-up consulting (service) business, in its first month of operations. Remember that after each transaction and event, assets always equal liabilities plus equity. Transaction 1: Investment by Owner On December 1, Chas Taylor forms a consulting business named FastForward and it is set up as a proprietorship. FastForward evaluates the performance of footwear and accessories. Taylor owns and manages the business, which will publish online reviews and consult with clubs, athletes, and others who purchase Nike and Adidas products. Real companies are in bold magenta Taylor invests $30,000 cash in the new company and deposits the cash in a bank account opened under the name of FastForward. After this transaction, cash (an asset) and equity each equals $30,000. Equity is increased by the owner's investment, which is included in that column and titled C. Taylor, Capital. The effect of this transaction on FastForward is shown in the accounting equation as follows (we label the equity entries). Table Summary:Table details. Assets = Liabilities + Equity Cash = C. Taylor, Capital (1) +$30,000 = +$30,000 Owner investment Transaction 2: Purchase Supplies for Cash FastForward uses $2,500 of its cash to buy supplies of Nike and Adidas footwear for performance testing over the next few months. This transaction is an exchange of cash, an asset, for another kind of asset, supplies. It simply changes the form of assets from cash to supplies. The decrease in cash is exactly equal to the increase in supplies. The supplies of

footwear are assets because of the expected future benefits from performance tests. Transaction 3: Purchase Equipment for Cash FastForward spends $26,000 to acquire equipment for testing footwear. Like Transaction 2, Transaction 3 is an exchange of one asset, cash, for another asset, equipment. The equipment is an asset because of its expected future benefits from testing footwear. This purchase changes the makeup of assets but does not change the asset total. The accounting equation remains in balance. Transaction 4: Purchase Supplies on Credit Taylor decides more supplies of footwear and accessories are needed. These additional supplies cost $7,100, but FastForward has only $1,500 in cash. Taylor arranges to purchase them on credit from CalTech Supply Company. Thus, FastForward acquires supplies in exchange for a promise to pay for them later. This purchase increases assets by $7,100 in supplies, and liabilities (called accounts payable to CalTech Supply) increase by the same amount. Point: Supplies bought "on credit" are received now and then cash is paid for them later. Page 12 Point: Accounts payable are amounts owed to others for items purchased on credit. Transaction 5: Provide Services for Cash FastForward plans to earn revenues by selling online ad space and consulting with clients about footwear and accessories. In its first job, FastForward provides consulting services and immediately collects $4,200 cash. The accounting equation reflects this increase in cash of $4,200 and in equity of $4,200. This increase in equity is shown in the far right column under Revenues because the cash received is earned by providing consulting services. Transactions 6 and 7: Payment of Expenses in Cash FastForward pays $1,000 to rent facilities for the month of December. The rental payment is shown in the following accounting equation as Transaction 6. FastForward also pays the biweekly $700 salary of the company's only employee. This is shown in the accounting equation as Transaction 7. Both Transactions 6 and 7 are December expenses for FastForward. The costs of both rent and salary are expenses, not assets, because their benefits are used in December (they have no future benefits after December). The accounting equation shows that both transactions reduce cash and equity. The far right column shows these decreases as Expenses. Point: Expense recognition principle requires that expenses are recognized when the revenue they help generate is recorded. Page 13 Transaction 8: Provide Services and Facilities for Credit FastForward provides consulting services of $1,600 and rents its test facilities for an additional $300 to Adidas on credit. Adidas is billed for the $1,900 total. This transaction creates a new asset, called accounts receivable, from Adidas. Accounts receivable is increased instead of cash because the payment has not yet been received. Equity is increased from the two revenue components shown in the Revenues column of the accounting equation. Point: Accounts receivable are amounts owed by customers for services or items sold on credit. Point: Transaction 8, like 5, records revenue when work is performed, not necessarily when cash is received. Transaction 9: Receipt of Cash from Accounts Receivable The client in Transaction 8 (Adidas) pays $1,900 to FastForward 10

days after it is billed for consulting services. Transaction 9 does not change the total amount of assets and does not affect liabilities or equity. It converts the receivable (an asset) to cash (another asset). It does not create new revenue. Revenue was recognized when FastForward performed the services in Transaction 8, not when the cash is collected. Point: Transaction 9 involved no added client work, so no added revenue is recorded. Point: Receipt of cash is not always a revenue. Transaction 10: Payment of Accounts Payable FastForward pays CalTech Supply $900 cash as partial payment for its earlier $7,100 purchase of supplies (Transaction 4), leaving $6,200 unpaid. This transaction decreases FastForward's cash by $900 and decreases its liability to CalTech Supply by $900. Equity does not change. This event does not create an expense even though cash flows out of FastForward (instead the expense is recorded when FastForward uses these supplies). Page 14 Transaction 11: Withdrawal of Cash by Owner The owner of FastForward withdraws $200 cash for personal use. Withdrawals (decreases in equity) are not reported as expenses because they do not help earn revenue. Because withdrawals are not expenses, they are not used in computing net income. Summary of Transactions Exhibit 1.9 shows the effects of these 11 transactions of FastForward using the accounting equation. Assets equal liabilities plus equity after each transaction. EXHIBIT 1.9 Summary of Transactions Using the Accounting Equation Table Summary: Banner headings indicate accounting equation: Assets = Liabilities + Equity Next row includes subheads: (under Assets) Cash; +; Account Receivable; +; Supplies; +; Equipment (under Liabilities) Accounts Payable (under Equity) C. Taylor, Capital; minus sign; C. Taylor, Withdrawals; +; Revenues; minus sign; Expenses Odd-numbered columns, except for 1, contain a math operations symbol. The following cells have entries: Row (1) Columns 1, 2, 9, 12 Row (2) Columns 1, 2, 5, 6, 9, 12 Balance row: Columns 1, 2, 5, 6, 9, 12 Row (3) Columns 1, 2, 7, 8 Balance row: Columns 1, 2, 5, 6, 7, 8, 9, 12 Row (4) Columns 1, 5, 6, 9, 10 Balance row: Columns 1, 2, 5, 6, 7, 8, 9, 10, 11, 12 Row (5) Columns 1, 2, 15, 16 Balance row: Columns 1, 2, 5, 6, 7, 8, 9, 10, 11, 12, 15, 16 Row (6) Columns 1, 2, 17, 18 Balance row: Columns 1, 2, 5, 6, 7, 8, 9, 10, 11, 12, 15, 16, 17, 18 Row (7) Columns 1, 2, 17, 18 Balance row: Columns 1, 2, 5, 6, 7, 8, 9, 10, 11, 12, 15, 16, 17, 18 Row (8) Columns 1, 3, 4, 15, 16 Row below Row (8) Columns 15, 16 Balance row: Columns 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 15, 16, 17, 18 Row (9) Columns 1, 2, 3, 4 Balance row: Columns 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 15, 16, 17, 18 Row (10) Columns 1, 2, 9, 10 Balance row: Columns 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 15, 16, 17, 18 Row (11) Columns 1, 2, 13, 14 Balance row: Columns 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18 Assets = Liabilities + Equity Cash + Accounts Receivable + Supplies + Equipment = Accounts Payable + C. Taylor, Capital − C. Taylor, Withdrawals + Revenues − Expenses (1) $30,000 = $30,000 (2) − 2,500 + $2,500 Bal. 27,500 + 2,500 = 30,000 (3) − 26,000 + $26,000 Bal. 1,500 + 2,500 + 26,000 = 30,000 (4) + 7,100 = +$7,100 Bal. 1,500 + 9,600 + 26,000 = 7,100 + 30,000

(5) + 4,200 + $4,200 Bal. 5,700 + 9,600 + 26,000 = 7,100 + 30,000 + 4,200 (6) − 1,000 − $1,000 Bal. 4,700 + 9,600 + 26,000 = 7,100 + 30,000 + 4,200 − 1,000 (7) − 700 − 700 Bal. 4,000 + 9,600 + 26,000 = 7,100 + 30,000 + 4,200 − 1,700 (8) + $1,900 + 1,600 + 300 Bal. 4,000 + 1,900 + 9,600 + 26,000 = 7,100 + 30,000 6,100 − 1,700 (9) + 1,900 − 1,900 Bal. 5,900 + 0 + 9,600 + 26,000 = 7,100 + 30,000 + 6,100 − 1,700 (10) − 900 − 900 Bal. 5,000 + 0 + 9,600 + 26,000 = 6,200 + 30,000 + 6,100 − 1,700 (11) − 200 − $200 Bal. $ 4,800 + $ 0 + $ 9,600 + $ 26,000 = $ 6,200 + $ 30,000 − $200 + $6,100 − $ 1,700 Decision Insight Larry W. Smith/EPA-EFE/Shutterstock Measurement and Recognition Revenues for the Kansas City Chiefs, Los Angeles Rams, Green Bay Packers, and other professional sports teams include ticket sales, television broadcasts, concessions, and advertising. Revenues from ticket sales are earned when the team plays each game. Advance ticket sales are not revenues; instead, they are a liability until the team plays the game for which the ticket was sold. At that point, the liability is removed and revenues are reported. ■ Page 15 NEED-TO-KNOW 1-4 Transaction Analysis P1 Assume Tata Company began operations on January 1 and completed the following transactions during its first month of operations. Show the effects of each transaction in a table like Exhibit 1.9. Jan. 1 Jamsetji Tata invested $4,000 cash in Tata Company. 5 The company purchased $2,000 of equipment on credit. 14 The company provided $540 of services for a client on credit. 21 The company paid $250 cash for an employee's salary. Solution Do More: QS 1-10, QS 1-11, E 1-12, E 1-13, E 1-14, E 1-15

	Assets						=	Liabilities	+		Equity						
	Cash	+	Accounts Receivable	+	Equipment		=	Accounts Payable	+	J. Tata, Capital	−	J. Tata, Withdrawals	+	Revenues	−	Expenses
Jan. 1	$4,000						=			$4,000						
Jan. 5	_____			+	$2,000			+$2,000		_____						
Bal.	4,000			+	2,000		=	2,000	+	4,000						
Jan. 14	_____	+	$540		_____			_____		_____			+	$540		
Bal.	4,000	+	540	+	2,000		=	2,000	+	4,000			+	540		
Jan. 21	−250		____		_____			_____		_____				____	−	$250
Bal.	3,750	+	540	+	2,000		=	2,000	+	4,000			+	540	−	250
			$6,290									$6,290				

Withdrawals decrease equity.

	Assets								=	Liabilities	+	Equity							
	Cash	+	**Accounts Receivable**	+	**Supplies**	+	**Equipment**		=	**Accounts Payable**	+	**C. Taylor, Capital**		**C. Taylor, Withdrawals**	+	**Revenues**	–	**Expenses**
Old Bal.	$5,000	+	$ 0	+	$9,600	+	$26,000		=	$6,200	+	$30,000			+	$6,100	–	$1,700
(11)	**–200**												–	**$200** Owner Withdrawals				
New Bal.	$4,800	+	$ 0	+	$9,600	+	$26,000		=	$6,200	+	$30,000	–	$200	+	$6,100	–	$1,700
	$40,400									$40,400								

	Assets							=	Liabilities	+	Equity				
	Cash	+	**Accounts Receivable**	+	**Supplies**	+	**Equipment**	=	**Accounts Payable**	+	**C. Taylor, Capital**	+	**Revenues**	–	**Expenses**
Old Bal.	$5,900	+	$ 0	+	$9,600	+	$26,000	=	$7,100	+	$30,000	+	$6,100	–	$1,700
(10)	**–900**								**–900**						
New Bal.	$5,000	+	$ 0	+	$9,600	+	$26,000	=	$6,200	+	$30,000	+	$6,100	–	$1,700
	$40,600								$40,600						

	Assets							=	Liabilities	+	Equity				
	Cash	+	**Accounts Receivable**	+	**Supplies**	+	**Equipment**	=	**Accounts Payable**	+	**C. Taylor, Capital**	+	**Revenues**	–	**Expenses**
Old Bal.	$4,000	+	$1,900	+	$9,600	+	$26,000	=	$7,100	+	$30,000	+	$6,100	–	$1,700
(9)	**+1,900**	–	**1,900**												
New Bal.	$5,900	+	$ 0	+	$9,600	+	$26,000	=	$7,100	+	$30,000	+	$6,100	–	$1,700
	$41,500								$41,500						

	Assets							=	Liabilities	+	Equity				
	Cash	+	**Accounts Receivable**	+	**Supplies**	+	**Equipment**	=	**Accounts Payable**	+	**C. Taylor, Capital**	+	**Revenues**	–	**Expenses**
Old Bal.	$4,000			+	$9,600	+	$26,000	=	$7,100	+	$30,000	+	$4,200	–	$1,700
(8)		+	**$1,900**									+	**1,600** Consulting		
												+	**300** Rental		
New Bal.	$4,000	+	$ 1,900	+	$9,600	+	$26,000	=	$7,100	+	$30,000	+	$6,100	–	$1,700
	$41,500								$41,500						

Expenses decrease equity.

	Assets						=	Liabilities	+	Equity				
	Cash	+	**Supplies**	+	**Equipment**		=	**Accounts Payable**	+	**C. Taylor, Capital**	+	**Revenues**	–	**Expenses**
Old Bal.	$5,700	+	$9,600	+	$26,000		=	$7,100	+	$30,000	+	$4,200		
(6)	**–1,000**												–	**$1,000** Rent
Bal.	4,700	+	9,600	+	26,000		=	7,100	+	30,000	+	4,200	–	1,000
(7)	**– 700**												–	**700** Salaries
New Bal.	$4,000	+	$9,600	+	$26,000		=	$7,100	+	$30,000	+	$4,200	–	$ 1,700
	$39,600							$39,600						

	Assets					=	Liabilities	+	Equity		
	Cash	+	**Supplies**	+	**Equipment**	=	**Accounts Payable**	+	**C. Taylor, Capital**	+	**Revenues**
Old Bal.	$1,500	+	$9,600	+	$26,000	=	$7,100	+	$30,000		
(5)	+4,200									+	$4,200 Consulting
New Bal.	$5,700	+	$9,600	+	$26,000	=	$7,100	+	$30,000	+	$ 4,200
			$41,300						$41,300		

	Assets					=	Liabilities	+	Equity
	Cash	+	**Supplies**	+	**Equipment**	=	**Accounts Payable**	+	**C. Taylor, Capital**
Old Bal.	$1,500	+	$2,500	+	$26,000	=			$30,000
(4)		+	7,100				+$7,100		
New Bal.	$1,500	+	$9,600	+	$26,000	=	$ 7,100	+	$30,000
			$37,100						$37,100

	Assets					=	Liabilities	+	Equity
	Cash	+	**Supplies**	+	**Equipment**	=			**C. Taylor, Capital**
Old Bal.	$27,500	+	$2,500			=			$30,000
(3)	−26,000			+	$26,000				
New Bal.	$ 1,500	+	$2,500	+	$ 26,000	=			$30,000
			$30,000						$30,000

	Assets			=	Liabilities	+	Equity
	Cash	+	**Supplies**	=			**C. Taylor, Capital**
Old Bal.	$30,000			=			$30,000
(2)	−2,500	+	$2,500				
New Bal.	$27,500	+	$ 2,500	=			$30,000
		$30,000					$30,000

FINANCIAL STATEMENTS P2 Identify and prepare basic financial statements and explain how they interrelate. Financial statements are prepared in the order below using the 11 transactions of FastForward. (These statements are unadjusted—we explain this in Chapters 2 and 3.) The four financial statements and their purposes follow. Income Statement FastForward's income statement for December is shown at the top of Exhibit 1.10. Information about revenues and expenses is taken from the Equity columns of Exhibit 1.9. Revenues are reported first on the income statement. They include consulting revenues of $5,800 from Transactions 5 and 8 and rental revenue of $300 from Transaction 8. Expenses are reported after revenues. Rent and salary expenses are from Transactions 6 and 7. Expenses are the costs to generate the revenues reported. Net income occurs when revenues exceed expenses. A net loss occurs when expenses exceed revenues. Net income (or loss) is shown at the bottom of the statement and is the amount reported in December. Owner investments and withdrawals are not part of income. Key terms are in bold and defined again in the glossary Page 16 EXHIBIT 1.10 Financial Statements and Their Links Point: A statement's heading identifies the company, the statement title, and the date or time period. Point: Arrow lines show how the statements are linked. ① Net income is used to compute owner capital. ② Owner capital is used to prepare the balance sheet. ③ Cash from the balance sheet is used to reconcile the statement of cash flows. Point: The income statement, the statement of owner's equity, and the statement of cash flows are prepared for a period of time. The balance sheet is prepared as of a point in time. Point: A single ruled line means an addition or subtraction. Final totals are double underlined. Negative amounts may or may not be in parentheses. Point: Net income is sometimes called earnings or profit. Page 17 Statement of Owner's Equity The statement of

owner's equity reports how equity changes over the reporting period. This statement shows beginning capital, events that increase it (owner investments and net income), and events that decrease it (withdrawals and net loss). Ending capital is computed in this statement and is carried over and reported on the balance sheet. FastForward's statement of owner's equity is the second report in Exhibit 1.10. The beginning balance is measured as of the start of business on December 1. It is zero because FastForward did not exist before then. An existing business reports a beginning balance equal to the prior period's ending balance (such as from November 30). FastForward's statement shows the $4,400 of net income for the period, which links the income statement to the statement of owner's equity (see line ①). The statement also reports the $200 cash withdrawal and FastForward's end-of-period capital balance. teekid/iStockphoto.com Balance Sheet FastForward's balance sheet is the third report in Exhibit 1.10. This statement shows FastForward's financial position at the end of the business day on December 31. The left side of the balance sheet lists FastForward's assets: cash, supplies, and equipment. The upper right side of the balance sheet shows that FastForward owes $6,200 to creditors. Any other liabilities (such as a bank loan) would be listed here. The equity balance is $34,200. Line ② shows the link between the ending balance of the statement of owner's equity and the equity balance on the balance sheet. (This presentation of the balance sheet is called the account form: assets on the left and liabilities and equity on the right. Another presentation is the report form: assets on top, followed by liabilities and then equity at the bottom. Both are acceptable.) As always, the accounting equation balances: Assets of $40,400 = Liabilities of $6,200 + Equity of $34,200. Statement of Cash Flows FastForward's statement of cash flows is the final report in Exhibit 1.10. The first section reports cash flows from operating activities. It shows the $6,100 cash received from clients and the $5,100 cash paid for supplies, rent, and employee salaries. Outflows are in parentheses to denote subtraction. Net cash provided by operating activities for December is $1,000. The second section reports investing activities, which involve buying and selling assets such as land and equipment that are held for long-term use (typically more than one year). The only investing activity is the $26,000 purchase of equipment. The third section shows cash flows from financing activities, which include long-term borrowing and repaying of cash from lenders and the cash investments from, and withdrawals by, the owner. FastForward reports $30,000 from the owner's initial investment and a $200 cash withdrawal. The net cash effect of all financing transactions is a $29,800 cash inflow. The final part of the statement shows an increased cash balance of $4,800. The ending balance is also $4,800 as it started with no cash—see line ③. Point: Payment for supplies is an operating activity because supplies are expected to be used up in short-term operations (typically less than one year). Point: Investing activities refer to long-term asset investments by the company, not to owner investments. Decision Insight Greg Epperson/Shutterstock Big Data The SEC keeps

an online database called EDGAR (sec.gov/edgar) that has accounting information for thousands of companies, such as Columbia Sportswear, that issue stock to the public. The annual report filing for most publicly traded U.S. companies is known as Form 10-K, and the quarterly filing is Form 10-Q. Information services such as Finance.Yahoo.com offer online data and analysis. ■ Page 18 NEED-TO-KNOW 1-5 Financial Statements P2 Prepare the (a) income statement, (b) statement of owner's equity, and (c) balance sheet for Accel using the following information from its current year ended December 31. Cash $17,000 Accounts receivable 5,000 Equipment 27,000 Land 30,000 Accounts payable 7,500 Wages payable 13,000 B. Accel, Capital, Dec. 31, prior year 58,000 Withdrawals 12,500 Revenues 41,000 Wages expense 21,000 Rent expense 7,000 Owner investments 0 Solution Do More: QS 1-12 through QS 1-19, E 1-16 through E 1-24

FASTFORWARD
Income Statement
For Month Ended December 31, 2021

Revenues		
Consulting revenue ($4,200 + $1,600)	$ 5,800	
Rental revenue	300	
Total revenues		$ 6,100
Expenses		
Rent expense	1,000	
Salaries expense	700	
Total expenses		1,700
Net income		**$ 4,400**

FASTFORWARD
Statement of Owner's Equity
For Month Ended December 31, 2021

C. Taylor, Capital, December 1, 2021		$ 0
Plus: Investments by owner	$30,000	
Net income	**4,400**	34,400
		34,400
Less: Withdrawals by owner		200
C. Taylor, Capital, December 31, 2021		$34,200

FASTFORWARD
Balance Sheet
December 31, 2021

Assets		Liabilities	
Cash	$ 4,800	Accounts payable	$ 6,200
Supplies	9,600	Total liabilities	6,200
Equipment	26,000	**Equity**	
		C. Taylor, Capital	34,200
Total assets	$40,400	Total liabilities and equity	$ 40,400

FASTFORWARD
Statement of Cash Flows
For Month Ended December 31, 2021

Cash flows from operating activities		
Cash received from clients ($4,200 + $1,900)	$ 6,100	
Cash paid for expenses ($2,500 + $900 + $1,000 + $700)	(5,100)	
Net cash provided by operating activities		$ 1,000
Cash flows from investing activities		
Cash paid for equipment	(26,000)	
Net cash used by investing activities		(26,000)
Cash flows from financing activities		
Cash investments by owner	30,000	
Cash withdrawals by owner	(200)	
Net cash provided by financing activities		29,800
Net increase in cash		$ 4,800
Cash balance, December 1, 2021		0
Cash balance, December 31, 2021		$ 4,800

Financial Statement	Layout	Purpose
Income statement	Revenues – Expenses Net income	Describes a company's revenues and expenses and computes net income or loss over a period of time.
Statement of owner's equity	Beg. capital + Owner investments + Net income – Withdrawals End. capital	Explains changes in owner's equity from owner investments, net income (or loss), and any withdrawals over a period of time.
Balance sheet	Assets = Liabilities + Equity	Describes a company's financial position (types and amounts of assets, liabilities, and equity) *at a point in time.*
Statement of cash flows	+/– Operating C.F. +/– Investing C.F. +/– Financing C.F. Change in cash	Identifies cash inflows (receipts) and cash outflows (payments) over a period of time.

Decision Analysis Decision Analysis (at the end of each chapter) covers ratios for decision making using real company data. Instructors can skip this section and cover all ratios in Chapter 17 Return on Assets A2 Compute and interpret return on assets. We organize financial statement analysis into four areas: (1) liquidity and efficiency, (2) solvency, (3) profitability, and (4) market prospects—Chapter 17 has a ratio listing with definitions and groupings by area. When analyzing ratios, we use a company's prior year ratios and competitor ratios to evaluate performance. This chapter presents a profitability measure: return on assets. Return on assets helps evaluate if management is effectively using assets to generate net income. Return on assets (ROA), also called return on investment (ROI), is defined in Exhibit 1.11. EXHIBIT 1.11 Return on Assets Page 19 Net income is from the annual income statement, and average total assets is computed by adding the beginning and ending amounts for that same period and dividing by 2. Nike reports total net income of $4,029 million for the current year. At the beginning of the current year its total assets are $22,536 million, and at the end of the current year assets total $23,717 million. Nike's return on assets for the current year is Is a 17.4% return on assets good or bad for Nike? To help answer this question, we compare (benchmark) Nike's return with its prior performance and the return of its competitor, Under Armour (see Exhibit 1.12). Nike shows a pattern of positive returns that reflects effective use of assets. Nike has outperformed Under Armour in each of the last three years. Under Armour had a negative ROA in the previous two years due to net losses. EXHIBIT 1.12 Nike and Under Armour Returns Table Summary: A table. Return on Assets Current Year 1 Year Ago 2 Years Ago Nike 17.4% 8.4% 19.0% Under Armour 2.0% (1.1)% (1.3)% Decision Maker requires critical thinking to

make decisions Decision Maker Business Owner You own a winter ski resort that earns a 21% return on its assets. An opportunity to purchase a winter ski equipment manufacturer is offered to you. This manufacturer earns a 14% return on its assets. The industry return for competitors of this manufacturer is 9%. Do you purchase this manufacturer? ■ Answer

NEED-TO-KNOW 1-6 Comprehensive Need-to-Know is a review of key chapter content COMPREHENSIVE Transaction Analysis, Statement Preparation, and Return on Assets Jasmine Worthy started a haircutting business called Expressions. The following events occurred during its first month of business. a. Dec. 1 Worthy invested $3,000 cash and $15,000 of equipment in Expressions. b. Dec. 2 Expressions paid $600 cash for furniture for the shop. c. Dec. 3 Expressions paid $500 cash to rent space in a strip mall for December. d. Dec. 4 Purchased $1,200 of equipment on credit (recorded as accounts payable). e. Dec. 15 Expressions opened for business on December 5. Cash received from haircutting services in the first week and a half of business (ended December 15) was $825. f. Dec. 16 Expressions provided $100 of haircutting services on credit. g. Dec. 17 Expressions received a $100 check for services previously rendered on credit. h. Dec. 18 Expressions paid $125 cash to an assistant for hours worked for the grand opening. i. Dec. 31 Cash received from services provided during the second half of December was $930. j. Dec. 31 Expressions paid $400 cash toward the accounts payable from December 4. k. Dec. 31 Worthy made a $900 cash withdrawal from Expressions for personal use. Required Show the effects of each transaction in a table like Exhibit 1.9. Prepare an income statement for December. Prepare a statement of owner's equity for December. Prepare a balance sheet as of December 31. Prepare a statement of cash flows for December. Determine the return on assets ratio for December. SOLUTION Table Summary: First contains banner headings to indicate accounting equation: Assets = Liabilities + Equity Next row includes subheads: (under Assets) Cash; +; Account Receivable; + Furniture; Equipment (under Liabilities) Accounts Payable (under Equity) J. Worthy, Capital; minus sign; J. Worthy, Withdrawals; +; Revenues; minus sign; Expenses Odd-numbered columns, except for 1, contain a math operations symbol. The following cells have entries: Row (a) Columns 1, 2, 8, 12 Row (b) Columns 1, 2, 5, 6, 9, 12 Balance row: Columns 1, 2, 5, 6, 7, 8, 9, 12 Row (c) Columns 1, 2, 17, 18 Balance row: Columns 1, 2, 5, 6, 7, 8, 9, 12, 17, 18 Row (d) Columns 7, 8, 10 Balance row: Columns 1, 2, 5, 6, 7, 8, 9, 10, 11, 12, 17, 18 Row (e) Columns 1, 2, 15, 16 Balance row: Columns 1, 2, 5, 6, 7, 8, 9, 10, 11, 12, 15, 16, 17, 18 Row (f) Columns 3, 4, 15, 16 Balance row: Columns 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 15, 16, 17, 18 Row (g) Columns 1, 2, 3, 4 Balance row: Columns 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 15, 16, 17, 18 Row (h) Columns 1, 2, 17, 18 Balance row: Columns 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 15, 16, 17, 18 Row (i) Columns 1, 2, 15, 16 Balance row: Columns 1, 2, 3, 4, 5, 6, 7, 8, 9,

10, 11, 12, 15, 16, 17, 18 Row (j) Columns 1, 2, 9, 10 Balance row: Columns 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 15, 16, 17, 18 Row (k) Columns 1, 2, 13, 14 Balance row: Columns 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18 Assets = Liabilities + Equity Cash + Accounts Receivable + Furniture + Equipment = Accounts Payable + J. Worthy, Capital − J. Worthy, Withdrawals + Revenues − Expenses a. $3,000 $15,000 $18,000 b. − 600 + $600 Bal. 2,400 + 600 + 15,000 = 18,000 c. − 500 − $500 Bal. 1,900 + 600 + 15,000 = 18,000 − 500 d. + 1,200 +$1,200 Bal. 1,900 + 600 + 16,200 = 1,200 + 18,000 − 500 e. + 825 + $ 825 Bal. 2,725 + 600 + 16,200 = 1,200 + 18,000 + 825 − 500 f. + $100 + 100 Bal. 2,725 + 100 + 600 + 16,200 = 1,200 + 18,000 + 925 − 500 g. + 100 − 100 Bal. 2,825 + 0 + 600 + 16,200 = 1,200 + 18,000 + 925 − 500 h. − 125 − 125 Bal. 2,700 + 0 + 600 + 16,200 = 1,200 + 18,000 + 925 − 625 i. + 930 + 930 Bal. 3,630 + 0 + 600 + 16,200 = 1,200 + 18,000 + 1,855 − 625 j. − 400 − 400 Bal. 3,230 + 0 + 600 + 16,200 = 800 + 18,000 + 1,855 − 625 k. − 900 − $900 Bal. $ 2,330 + 0 + $ 600 + $ 16,200 = $ 800 + $ 18,000 − $ 900 + $1,855 − $625 Page 21

*Uses the initial $18,000 investment as the beginning balance for the start-up period only.

5.

EXPRESSIONS
Statement of Cash Flows
For Month Ended December 31

Cash flows from operating activities		
Cash received from customers	$1,855	
Cash paid for expenditures ($500 + $125 + $400)	(1,025)	
Net cash provided by operating activities		$ 830
Cash flows from investing activities		
Cash paid for furniture	(600)	
Net cash used by investing activities		(600)
Cash flows from financing activities		
Cash investments by owner	3,000	
Cash withdrawals by owner	(900)	
Net cash provided by financing activities		2,100
Net increase in cash		$2,330
Cash balance, December 1		0
Cash balance, December 31		$2,330

2.

EXPRESSIONS
Income Statement
For Month Ended December 31

Revenues		
Services revenue		$ 1,855
Expenses		
Rent expense	$500	
Wages expense	125	
Total expenses		625
Net income		$1,230

3.

EXPRESSIONS
Statement of Owner's Equity
For Month Ended December 31

J. Worthy, Capital, December 1*		$ 0
Plus: Investments by owner	$18,000	
Net income	1,230	19,230
		19,230
Less: Withdrawals by owner		900
J. Worthy, Capital, December 31		$18,330

*If Expressions had existed before December 1, the beginning capital balance would equal the prior period's ending balance.

4.

EXPRESSIONS
Balance Sheet
December 31

Assets		Liabilities	
Cash	$ 2,330	Accounts payable	$ 800
Furniture	600	**Equity**	
Equipment	16,200	J. Worthy, Capital	18,330
Total assets	$19,130	Total liabilities and equity	$19,130

Summary: Cheat Sheet ACCOUNTING USES External users: Do not directly run the organization and have limited access to its accounting information. Examples are lenders, shareholders, extearnal auditors, nonexecutive employees, labor unions, regulators, voters, donors, suppliers, and customers. Internal users: Directly manage organization operations. Examples are the CEO and other executives, research and development managers, purchasing managers, production managers, and other managerial-level employees. Private accounting: Accounting employees working for businesses. Public accounting: Offering audit, tax, and advisory services to others. ETHICS AND ACCOUNTING Fraud triangle: Three factors that push a person to commit fraud. Opportunity: Must be able to commit fraud with a low risk of getting caught. Pressure, or incentive: Must feel pressure or have incentive to commit fraud. Rationalization, or attitude: Justifies fraud or does not see its criminal nature. Common business entities: Table Summary: Table describes how various attributes are experienced by a sole proprietorship and by a partnership. The attributes are listed in the first column. Sole Proprietorship Partnership Number of owners 1 owner; easy to set up. 2 or more, called partners; easy to set up. Business taxation No additional business income tax. No additional business income tax. Owner liability Unlimited liability. Owner is personally

liable for proprietorship debts. Unlimited liability. Partners are jointly liable for partnership debts. Legal entity Not a separate legal entity. Not a separate legal entity. Business life Business ends with owner death or choice. Business ends with a partner death or choice. Table Summary: Table describes how various attributes are experienced by a corporation and by a limited liability company (LLC). The attributes are listed in the first column. Corporation Limited Liability Company (LLC) Number of owners 1 or more, called shareholders; can get many investors by selling stock or shares of corporate ownership. 1 or more, called members. Business taxation Additional corporate income tax. No additional business income tax. Owner liability Limited liability. Owners, called shareholders (or stockholders), are not liable for corporate acts and debts. Limited liability. Owners, called members, are not personally liable for LLC debts. Legal entity A separate entity with the same rights and responsibilities as a person. A separate entity with the same rights and responsibilities as a person. Business life Indefinite. Indefinite. TRANSACTION ANALYSIS Assets: Resources a company owns or controls that are expected to yield future benefits. Liabilities: Creditors' claims on assets. These are obligations to provide assets, products, or services to others. Equity: Owner claim on assets. It consists of: Owner, Capital Owner investments are inflows of cash and other net assets from owner contributions, which increase equity. Owner, Withdrawals Owner withdrawals are outflows of cash and other assets to owners for personal use, which reduce equity. Revenues Revenues increase equity (via net income) from sales of products and services to customers; examples are sales of products, consulting services provided, facilities rented to others, and commissions from services. Expenses Expenses decrease equity (via net income) from costs of providing products and services to customers; examples are costs of employee time, use of supplies, advertising, utilities, and insurance fees. Accounting equation: Applies to all transactions and events, to all companies and organizations, and to all points in time. Expanded accounting equation: Summary of transactions: Financial effects of the following transactions are shown in the table using the expanded accounting equation. Transaction 1: Investment by owner Transaction 2: Purchase supplies for cash Transaction 3: Purchase equipment for cash Transaction 4: Purchase supplies on credit Transaction 5: Provide services for cash Transactions 6 and 7: Payment of expenses in cash Transaction 8: Provide services and facilities for credit Transaction 9: Receipt of cash from accounts receivable Transaction 10: Payment of accounts payable Transaction 11: Withdrawal of cash by owner Page 22 Table Summary: Table is a repeated display of Exhibit 1.9. Assets = Liabilities + Equity Cash + Accounts Receivable + Supplies + Equipment = Accounts Payable + C. Taylor, Capital − C. Taylor, Withdrawals + Revenues − Expenses (1) $30,000 = $30,000 (2) − 2,500 + $2,500 Bal. 27,500 + 2,500 = 30,000 (3) −26,000 + $26,000 Bal. 1,500 + 2,500 + 26,000 = 30,000 (4) + 7,100 = +$7,100 Bal. 1,500 + 9,600 + 26,000 = 7,100 + 30,000

(5) + 4,200 + $4,200 Bal. 5,700 + 9,600 + 26,000 = 7,100 + 30,000 + 4,200 (6) − 1,000 − $1,000 Bal. 4,700 + 9,600 + 26,000 = 7,100 + 30,000 + 4,200 − 1,000 (7) − 700 − 700 Bal. 4,000 + 9,600 + 26,000 = 7,100 + 30,000 + 4,200 − 1,700 (8) + $1,900 + 1,600 + 300 Bal. 4,000 + 1,900 + 9,600 + 26,000 = 7,100 + 30,000 6,100 − 1,700 (9) + 1,900 − 1,900 Bal. 5,900 + 0 + 9,600 + 26,000 = 7,100 + 30,000 + 6,100 − 1,700 (10) − 900 − 900 Bal. 5,000 + 0 + 9,600 + 26,000 = 6,200 + 30,000 + 6,100 − 1,700 (11) − 200 − $200 Bal. $ 4,800 + $ 0 + $ 9,600 + $ 26,000 = $ 6,200 + $ 30,000 − $200 + $ 6,100 − $ 1,700 FINANCIAL STATEMENTS

Financial Statement	Layout	Purpose
Income statement	Revenues − Expenses Net income	Describes a company's revenues and expenses and computes net income or loss over a period of time.
Statement of owner's equity	Beg. capital + Owner investments + Net income − Withdrawals End. capital	Explains changes in owner's equity from owner investments, net income (or loss), and any withdrawals over a period of time.
Balance sheet	Assets = Liabilities + Equity	Describes a company's financial position (types and amounts of assets, liabilities, and equity) *at a point in time.*
Statement of cash flows	+/− Operating C.F. +/− Investing C.F. +/− Financing C.F. Change in cash	Identifies cash inflows (receipts) and cash outflows (payments) over a period of time.

Key Terms Key Terms conclude each chapter (a complete glossary is available in Connect) Accounting (3) Accounting equation (9) Assets (9) Audit (7) Auditors (6) Balance sheet (15) Bookkeeping (3) Business entity assumption (8) Common stock (8) Conceptual framework (7) Corporation (8) Cost constraint (8) Cost principle (7) Cost-benefit constraint (8) Data

analytics (5) Data visualization (5) Equity (9) Ethics (6) Events (10) Expanded accounting equation (10) Expense recognition principle (7) Expenses (10) External transactions (10) External users (4) Financial accounting (4) Financial Accounting Standards Board (FASB) (7) Full disclosure principle (8) Generally accepted accounting principles (GAAP) (6) Going-concern assumption (8) Income statement (15) Internal controls (6) Internal transactions (10) Internal users (4) International Accounting Standards Board (IASB) (7) International Financial Reporting Standards (IFRS) (7) Liabilities (9) Limited liability company (LLC) (8) Managerial accounting (4) Matching principle (7) Measurement principle (7) Members (8) Monetary unit assumption (8) Net income (17) Net loss (17) Owner, Capital (24) Owner, Withdrawals (24) Owner investments (10) Partnership (8) Proprietorship (8) Recordkeeping (3) Return on assets (ROA) (19) Revenue recognition principle (7) Revenues (10) Securities and Exchange Commission (SEC) (7) Shareholders (8) Shares (8) Sole proprietorship (21) Statement of cash flows (15) Statement of owner's equity (15) Stock (8) Stockholders (8) Time period assumption (8)

Multiple Choice Quiz A building is offered for sale at $500,000 but is currently assessed at $400,000. The purchaser of the building believes the building is worth $475,000, but ultimately purchases the building for $450,000. The purchaser records the building at: $50,000. $400,000. $450,000. $475,000. $500,000. On December 30 of the current year, KPMG signs a $150,000 contract to provide accounting services to one of its clients in the next year. KPMG has a December 31 year-end. Which accounting principle or assumption requires KPMG to record the accounting services revenue from this client in the next year and not in the current year? Business entity assumption Revenue recognition principle Monetary unit assumption Cost principle Going-concern assumption If the assets of a company increase by $100,000 during the year and its liabilities increase by $35,000 during the same year, then the change in equity of the company during the year must have been a(n): Increase of $135,000. Decrease of $135,000. Decrease of $65,000. Increase of $65,000. Brunswick borrows $50,000 cash from Third National Bank. How does this transaction affect the accounting equation for Brunswick?Page 23 Assets increase by $50,000; liabilities increase by $50,000; no effect on equity. Assets increase by $50,000; no effect on liabilities; equity increases by $50,000. Assets increase by $50,000; liabilities decrease by $50,000; no effect on equity. No effect on assets; liabilities increase by $50,000; equity increases by $50,000. No effect on assets; liabilities increase by $50,000; equity decreases by $50,000. Geek Squad performs services for a customer and bills the customer for $500. How would Geek Squad record this transaction? Accounts receivable increase by $500; revenues increase by $500. Cash increases by $500; revenues increase by $500. Accounts receivable increase by $500; revenues decrease by $500. Accounts

receivable increase by $500; accounts payable increase by $500. Accounts payable increase by $500; revenues increase by $500. ANSWERS TO MULTIPLE CHOICE QUIZ c; $450,000 is the actual cost incurred. b; revenue is recorded when services are provided. d; Table Summary: A table. Assets = Liabilities + Equity +$100,000 = +$35,000 + ?Change in equity = $100,000 − $35,000 = $65,000 a a

QUICK STUDY Select Quick Study and Exercise assignments feature Guided Example videos, called “Hints” in Connect. Hints use different numbers, and instructors can turn this feature on or off. QS 1-1 Understanding accounting C1 Choose the term or phrase below that best completes each statement. Accounting Identifying Recording Communicating Governmental Artificial intelligence Language of business Recordkeeping (bookkeeping) _____helps accountants by performing repetitive tasks such as entering invoice data. _____requires that we input, measure, and log transactions and events. _____is the recording of transactions and events, either manually or electronically. QS 1-2 Identifying accounting users C1 Identify the following users as either External users or Internal users. Customers Suppliers External auditors Business press Managers District attorney Shareholders Lenders Controllers FBI and IRS Consumer group Voters QS 1-3 Applying the fraud triangle C2 Identify the fraud triangle risk factor (Opportunity, Pressure, or Rationalization) in each situation. The business has no cameras or security devices at its warehouse. Managers are expected to grow business or be fired. A worker sees other employees regularly take inventory for personal use. No one matches the cash in the register to receipts when shifts end. Officers are told to report rising income or risk layoffs. A worker feels that fellow employees are not honest. QS 1-4 Identifying principles, assumptions, and constraints C2 Identify each of the following as an accounting Principle, Assumption, or Constraint. Full disclosure Time period Going-concern Revenue recognition Page 24 QS 1-5 Identifying attributes of businesses C2 Complete the following table with either a yes or no regarding the attributes of a sole proprietorship, partnership, corporation, and limited liability company (LLC). Table Summary: Table lists attributes in first column. The other four columns have a blank to be filled in for a sole proprietorship, partnership, corporation, or LLC. Attribute Present Sole Proprietorship Partnership Corporation LLC 1. Business taxed _____ _____ _____ _____ 2. Limited liability _____ _____ _____ _____ 3. Legal entity _____ _____ _____ _____ QS 1-6 Identifying accounting principles and assumptions C2 Identify the accounting principle or assumption that best explains each situation. In December of this year, Chavez Landscaping received a customer’s order and cash prepayment to install sod at a house that would not be ready for installation until March of next year. Chavez should record the revenue from the customer order in March of next year, not in December of this year. If

$51,000 cash is paid to buy land, the land is reported on the buyer's balance sheet at $51,000. Mike Derr owns both Sailing Passions and Dockside Digs. In preparing financial statements for Dockside Digs, Mike makes sure that the expense transactions of Sailing Passions are kept separate from Dockside Digs's transactions and financial statements. QS 1-7 Applying the accounting equation A1 Total assets of Charter Company equal $700,000 and its equity is $420,000. What is the amount of its liabilities? Total assets of Martin Marine equal $500,000 and its liabilities and equity amounts are equal to each other. What is the amount of its liabilities? What is the amount of its equity? QS 1-8 Applying the accounting equation A1 Use the accounting equation to compute the missing financial statement amounts (a), (b), and (c). Use the expanded accounting equation to compute the missing financial statement amounts (a) and (b). QS 1-9 Determining effects of transactions on equity P1 Determine whether each of the following transactions increases or decreases equity. Owner invested cash in the company. Incurred maintenance expenses. Performed services for a client. Incurred employee wage expenses. QS 1-10 Identifying effects of transactions using accounting equation—revenues and expenses P1 Create a table similar to Exhibit 1.9. Then use additions and subtractions to show the dollar effects of each transaction on individual items of the accounting equation. Assets = Liabilities + Equity Cash + Accounts Receivable = Accounts Payable + Owner, Capital − Owner, Withdrawals + Revenues − Expenses Page 25 The company completed consulting work for a client and immediately collected $5,500 cash. The company completed commission work for a client and sent a bill for $4,000 to be received within 30 days. The company paid an assistant $1,400 cash as wages for the period. The company collected $1,000 cash as a partial payment for the amount owed by the client in transaction b. The company paid $700 cash for this period's cleaning services. QS 1-11 Identifying effects of transactions using accounting equation—assets and liabilities P1 Create a table similar to Exhibit 1.9. Then use additions and subtractions to show the dollar effects of each transaction on individual items of the accounting equation. Assets = Liabilities + Equity Cash + Supplies + Equipment + Land = Accounts Payable + Owner, Capital − Owner, Withdrawals + Revenues − Expenses The owner invested $15,000 cash in the company. The company purchased supplies for $500 cash. The owner invested $10,000 of equipment in the company. The company purchased $200 of additional supplies on credit. The company purchased land for $9,000 cash. QS 1-12 Identifying items with financial statements P2 Indicate in which financial statement each item would most likely appear: income statement, balance sheet, or statement of cash flows. Assets Cash from operating activities Equipment Expenses Liabilities Net decrease (or increase) in cash Revenues Total liabilities and equity QS 1-13 Identifying income and equity accounts P2 Classify each of the following items as revenues, expenses, or withdrawals. Utilities expense Service revenue Wages expense Owner withdrawals Rent expense Rental revenue Insurance

expense Consulting revenue QS 1-14 Identifying assets, liabilities, and equity P2 Classify each of the following items as assets, liabilities, or equity. Land Wages payable Equipment Accounts payable Accounts receivable Supplies QS 1-15 Preparing an income statement P2 On December 31, Hawkin's records show the following accounts. Use this information to prepare a December income statement for Hawkin. Cash $ 5,100 Accounts receivable 600 Supplies 2,000 Equipment 14,000 Accounts payable 6,000 Hawkin, Capital, December 1 10,900 Hawkin, Withdrawals 1,000 Services revenue 16,000 Wages expense 8,000 Rent expense 1,500 Utilities expense 700 QS 1-16 Preparing a statement of owner's equity P2 Use the information in QS 1-15 to prepare a statement of owner's equity for Hawkin for the month ended December 31. Hint: Net income is $5,800 and owner investments are $0 for the period. Page 26 QS 1-17 Preparing a balance sheet P2 Use the information in QS 1-15 to prepare a December 31 balance sheet for Hawkin. Hint: Hawkin, Capital, December 31, equals $15,700. QS 1-18 Preparing a statement of cash flows P2 Use the following information to prepare a statement of cash flows for Studio One for the month ended December 31. The cash balance at the start of December 1 was $1,000. Cash withdrawals by owner $ 2,000 Cash received from customers 23,500 Cash investments by owner 11,000 Cash paid for equipment $ 3,000 Cash paid for truck 22,000 Cash paid for expenditures 6,000 QS 1-19 Classifying items on the statement of cash flows P2 Identify the following cash flows as reported under either operating activities, investing activities, or financing activities. Cash purchase of equipment Cash paid for land Cash paid for advertising Cash paid for wages Cash paid on account payable to supplier Cash received from clients Cash paid for rent Cash investment by owner QS 1-20 Interpreting return on assets A2 Return on assets for Deutsche Auto for each of the last three years follows. Over the three-year period shown, did the company's return on assets improve or worsen? QS 1-21 Computing and interpreting return on assets A2 Home Demo reports the following results. (a) Compute Home Demo's return on assets. (b) Is Home Demo's return on assets better than the 11% return of Lows Hardware (a competitor)? Sales $95 billion Net income 8 billion Average total assets 42 billion

	A	B	C	D	E	F	G
1				Owner,	Owner,		
2	Company	Assets	Liabilities	Capital	Withdrawals	Revenues	Expenses
3	1	$ 40,000	$ 16,000	$ 20,000	$ 0	*(a)*	$ 8,000
4	2	$ 80,000	$ 32,000	$ 44,000	*(b)*	$ 24,000	$ 18,000

	A	B	C	D
1	Company	Assets =	Liabilities +	Equity
2	1	$ 75,000	$ *(a)*	$ 40,000
3	2	*(b)*	25,000	70,000
4	3	85,000	20,000	*(c)*

EXERCISES Select Exercises and Quick Studies have Guided Example videos, called “Hints” in Connect. Hints use different numbers, and instructors can turn this feature on or off. Exercise 1-1 Classifying activities reflected in the accounting system C1 Classify the following activities as part of the Identifying, Recording, or Communicating aspects of accounting. Analyzing and interpreting reports. Presenting financial information. Keeping a log of service costs. Measuring the costs of a product. Preparing financial statements. Acquiring knowledge of revenue transactions. Observing transactions and events. Registering cash sales of products sold. Exercise 1-2 Identifying accounting users and uses C1 Part A. Identify the following questions as most likely to be asked by an Internal user or an External user of accounting information. Which inventory items are out of stock? Should we make a five-year loan to that business? What are the costs of our product’s ingredients? Should we buy, hold, or sell a company’s stock? Should we spend additional money for redesign of our product? Which firm reports the highest sales and income? What are the costs of our service to customers? Part B. Identify the following users as either an Internal user or an External user. Research and development executive Human resources executive Politician Shareholder Distribution manager Creditor Production supervisor Purchasing manager Page 27 Exercise 1-3 Describing accounting responsibilities C1 Determine whether each of the following accounting duties mainly involves financial accounting, managerial accounting, or tax accounting. Internal auditing. External auditing. Cost accounting. Budgeting. Enforcing tax laws. Planning transactions to minimize taxes. Preparing external financial statements. Analyzing external financial reports. Exercise 1-4 Learning the language of business C1 C2 Match each of the descriptions with the term or phrase it best reflects. Audit GAAP Ethics FASB SEC Public accountants Net income IASB An assessment of whether financial statements follow GAAP. Amount a business earns in excess of all expenses and costs associated with its sales and revenues. A group that sets accounting principles in the United States. Accounting professionals who provide services to many clients. Principles that determine whether an action is right or wrong. Exercise 1-5 Identifying ethical terminology C2 Match each of the descriptions with the term or phrase it best reflects. Ethics Fraud triangle Prevention Internal controls Audit Examines whether financial statements are prepared using GAAP. Procedures set up to protect company property and equipment, ensure reliable accounting, promote efficiency, and encourage adherence to policies. A less expensive and more effective means to stop fraud. Three factors push a person to commit fraud: opportunity, pressure, and rationalization. Beliefs that distinguish right from wrong. Exercise 1-6 Distinguishing business organizations C2 Determine whether each description best refers to a sole proprietorship, partnership, corporation, or limited liability company (LLC). Micah and Nancy own Financial Services, which pays a business income tax. Micah and Nancy do not have personal responsibility for the debts of Financial Services. Riley and Kay own Speedy Packages, a courier service.

Both are personally liable for the debts of the business. IBC Services does not have separate legal existence apart from the one person who owns it. Trent Company is owned by Trent Malone, who is personally liable for the company's debts. Ownership of Zander Company is divided into 1,000 shares of stock. The company pays a business income tax. Physio Products does not pay a business income tax and has one owner. The owner has unlimited liability for business debt. AJ Company pays a business income tax and has two owners. Jeffy Auto is a separate legal entity from its owner, but it does not pay a business income tax. Exercise 1-7 Identifying accounting principles and assumptions C2 Identify the accounting principle or assumption that best reflects each situation. A company reports details behind financial statements that would impact users' decisions. Financial statements reflect the assumption that the business continues operating. A company records the expenses incurred to generate the revenues reported. Each business is accounted for separately from its owner or owners. Revenue is recorded when products and services are delivered. Information is based on actual costs incurred in transactions. Page 28 Exercise 1-8 Applying measurement principle and revenue recognition principle C2 Byrde Co. purchased a truck. The seller asked for $11,000, but Byrde paid only $10,000 after negotiation. The owner of Byrde Co. believes he got a great deal and the truck is really worth $15,000. What amount does Byrde record on its financial statements for the truck? Snell Co. performs services for a client in May and bills the client $1,000. In June, the client makes a partial payment of $300 cash. In July, the remaining $700 cash is paid. Determine the monthly revenue recorded in May, June, and July applying revenue recognition principle. Exercise 1-9 Using the accounting equation A1 Determine the missing amount from each of the separate situations a, b, and c below. Exercise 1-10 Using the accounting equation A1 Answer the following questions. Hint: Use the accounting equation. At the beginning of the year, Addison Company's assets are $300,000 and its equity is $100,000. During the year, assets increase $80,000 and liabilities increase $50,000. What is the equity at year-end? Office Store Co. has assets equal to $123,000 and liabilities equal to $47,000 at year-end. What is the equity for Office Store Co. at year-end? At the beginning of the year, Quaker Company's liabilities equal $70,000. During the year, assets increase by $60,000, and at year-end assets equal $190,000. Liabilities decrease $5,000 during the year. What are the beginning and ending amounts of equity? Check(c) Beg. equity, $60,000 Exercise 1-11 Determining effect of transactions on accounting equation A1 Answer the following questions. Hint: Use the accounting equation. On January 1, Lumia Company's liabilities are $60,000 and its equity is $40,000. On January 3, Lumia purchases and installs solar panel assets costing $10,000. For the panels, Lumia pays $4,000 cash and promises to pay the remaining $6,000 in six months. What is the total of Lumia's assets after the solar panel purchase? On March 1, ABX Company's assets are $100,000 and its liabilities are $30,000. On March 5, ABX is fined $15,000 for failing emission standards. ABX immediately pays the

fine in cash. After the fine is paid, what is the amount of equity for ABX? On August 1, Lola Company's assets are $30,000 and its liabilities are $10,000. On August 4, Lola issues a sustainability report. On August 5, ownership invests $3,000 cash and $7,000 of equipment in Lola. After the investment, what is the amount of equity for Lola? Exercise 1-12 Analysis using the accounting equation P1 Zen began a new consulting firm on January 5. Following are total account balances after each of the company's first five transactions (using the accounting equation form). Table Summary: A table. Assets = Liabilities + Equity Transaction Cash + Accounts Receivable + Supplies + Equipment = Accounts Payable + Zen, Capital + Revenues _____1. $40,000 + $ 0 + $ 0 + $ 0 = $ 0 + $40,000 + $ 0 _____2. 38,000 + 0 + 3,000 + 0 = 1,000 + 40,000 + 0 _____3. 30,000 + 0 + 3,000 + 8,000 = 1,000 + 40,000 + 0 _____4. 30,000 + 6,000 + 3,000 + 8,000 = 1,000 + 40,000 + 6,000 _____5. 31,000 + 6,000 + 3,000 + 8,000 = 1,000 + 40,000 + 7,000 Identify the explanation from a through j that best describes each transaction 1 through 5. The company purchased equipment for $8,000 cash. The company received $40,000 cash from a bank loan. The owner invested $1,000 cash in the business. The owner invested $40,000 cash in the business. The company purchased supplies for $3,000 by paying $2,000 cash and putting $1,000 on credit. The company billed a customer $6,000 for services provided.Page 29 The company purchased equipment worth $8,000 on credit. The company provided services for $1,000 cash. The company sold supplies for $3,000 and received $2,000 cash and $1,000 on credit. The company provided services for $6,000 cash. Exercise 1-13 Identifying effects of transactions on the accounting equation P1 The following table shows the effects of transactions 1 through 5 on the assets, liabilities, and equity of Mulan's Boutique. Table Summary: Banner headings indicate accounting equation: Assets = Liabilities + Equity Initial row includes subheads: (under Assets) Cash; +; Account Receivable; +; Supplies; +; Land (under Liabilities) Accounts Payable (under Equity) Mulan, Capital; +; Revenues Odd-numbered columns, except for 1, contain a math operations symbol. Initial two rows contain data in all columns except first column. Row (1) Columns 1, 2, 7, 8 Row (2) Columns 1, 5, 6, 10 Row (3) Columns 1, 3, 4, 11, 12 Row (4) Columns 1, 2, 10 Row (5) Columns 1, 2, 3, 4 Final row has entries in all columns, except column 1. Assets = Liabilities + Equity Cash + Accounts Receivable + Supplies + Land = Accounts Payable + Mulan, Capital + Revenues $21,000 + $ 0 + $3,000 + $19,000 = $ 0 + $43,000 + $ 0 _____1. −4,000 + 4,000 _____2. + 1,000 +1,000 _____3. + 1,900 + 1,900 _____4. −1,000 −1,000 _____5. +1,900 − 1,900 $17,900 + $ 0 + $4,000 + $23,000 = $ 0 + $43,000 + $1,900 Identify the explanation from a through j that best describes each transaction 1 through 5. The company purchased $1,000 of supplies on credit. The company collected $1,900 cash from an account receivable. The company sold land for $4,000 cash. The company paid $1,000 cash for land. The company purchased supplies for $1,000 cash. The company purchased land for $4,000 cash. The company

billed a client $1,900 for services provided. The company paid $1,000 cash toward an account payable. The owner invested $1,900 cash in the business. The company sold supplies for $1,900 on credit. Exercise 1-14 Identifying effects of transactions on the accounting equation P1 For each transaction a through f, identify its impact on the accounting equation (select from 1 through 5 below). Decreases an asset and decreases equity. Increases an asset and increases a liability. Decreases an asset and decreases a liability. Increases an asset and decreases an asset. Increases an asset and increases equity. The company pays cash toward an account payable. The company purchases equipment on credit. The owner invests cash in the business. The company pays workers for wages earned. The company purchases supplies for cash. The company provides services for cash. Exercise 1-15 Identifying effects of transactions using the accounting equation P1 Ming Chen started a business and had the following transactions in June. Create the following table similar to Exhibit 1.9 and use additions and subtractions to show the dollar effects of the transactions on individual items of the accounting equation. Show new balances after each transaction. Table Summary:Table details. Assets = Liabilities + Equity Cash + Accounts Receivable + Equipment = Accounts Payable + M. Chen, Capital − M. Chen, Withdrawals + Revenues − Expenses Owner invested $60,000 cash in the company along with $15,000 of equipment. The company paid $1,500 cash for rent of office space for the month. The company purchased $10,000 of additional equipment on credit (payment due within 30 days). The company completed work for a client and immediately collected $2,500 cash.Page 30 The company completed work for a client and sent a bill for $8,000 to be received within 30 days. The company purchased additional equipment for $6,000 cash. The company paid an assistant $3,000 cash as wages for the month. The company collected $5,000 cash as a partial payment for the amount owed by the client in transaction e. The company paid $10,000 cash to settle the liability created in transaction c. The owner withdrew $1,000 cash from the company for personal use. CheckEnding balances: Cash, $46,000; Expenses, $4,500 Exercise 1-16 Computing net income using accounting equation P2 Shep Company's records show the following information for the current year. Determine net income (loss) for each of the following separate situations. Additional owner investments of $3,000 were contributed, and withdrawals of $7,000 were made during the current year. Additional owner investments of $15,000 were contributed, and no withdrawals were made during the current year. No additional owner investments were contributed, and withdrawals of $12,000 were made during the current year. Exercise 1-17 Reporting cash flows and determining effects P2 For each transaction, (a) determine whether the transaction appears on the statement of cash flows under cash flows from operating activities, cash flows from investing activities, or cash flows from financing activities and (b) indicate whether the transaction is a cash outflow or cash inflow. Cash received from client for performing services. Cash investment

from the owner. Cash paid for this month's rent. Cash paid for equipment. Cash paid for employee wages. Cash paid to settle long-term loan. Exercise 1-18 Preparing an income statement P2 On December 1, Jasmin Ernst organized Ernst Consulting. On December 3, the owner contributed $84,000 in assets to launch the business. On December 31, the company's records show the following items and amounts. Use this information to prepare a December income statement for the business. Cash $11,360 Accounts receivable 14,000 Office supplies 3,250 Office equipment 18,000 Land 46,000 Accounts payable 8,500 Owner investments 84,000 Cash withdrawals by owner 2,000 Consulting revenue 14,000 Rent expense 3,550 Salaries expense 7,000 Telephone expense 760 Miscellaneous expenses 580 CheckNet income, $2,110 Exercise 1-19 Preparing a statement of owner's equity P2 Use the information in Exercise 1-18 to prepare a December statement of owner's equity for Ernst Consulting. Hint: J. Ernst, Capital, on December 1 was $0. Exercise 1-20 Preparing a balance sheet P2 Use the information in Exercise 1-18 to prepare a December 31 balance sheet for Ernst Consulting. Hint: The solution to Exercise 1-19 can help. Page 31 Exercise 1-21 Preparing a statement of cash flows P2 Use the information in Exercise 1-18 to prepare a December statement of cash flows for Ernst Consulting. Assume the following additional information. The owner's initial investment consists of $38,000 cash and $46,000 in land. The company's $18,000 equipment purchase is paid in cash. Cash paid to employees is $1,750. (The accounts payable balance of $8,500 consists of the $3,250 office supplies purchase and $5,250 in employee salaries yet to be paid.) The company's rent expense, telephone expense, and miscellaneous expenses are paid in cash. No cash has yet been collected on the $14,000 consulting revenue earned. CheckNet increase in cash, $11,360 Exercise 1-22 Preparing consecutive statements of owner's equity P2 Jarvis began operations on January 1, Year 1. Jarvis made an owner investment of $10,000 early in Year 1. There have been no additional owner investments. In its first two years of operations, it reported the following at its December 31 year-end. Prepare the statement of owner's equity for (a) Year 1 and (b) Year 2. Exercise 1-23 Linking the income statement and statement of owner's equity P2 Terrell Co. reported the following data at the end of its first year of operations on December 31. (a) Prepare its year-end income statement. (b) Prepare its year-end statement of owner's equity using net income calculated in part a. Hint: Terrell, Capital, on January 1 was $0. Equipment $18,000 Accounts payable 7,000 Owner investments 22,000 Terrell, Withdrawals 5,000 Services revenue 48,000 Rent revenue 9,000 Salaries expense 37,000 Advertising expense 3,000 Utilities expense 1,000 Exercise 1-24 Linking the statement of owner's equity and balance sheet P2 Mahomes Co. reported the following data at the end of its first year of operations on December 31. (a) Prepare its year-end statement of owner's equity. (b) Prepare its year-end balance sheet using owner's capital calculated in part a. Hint: Mahomes, Capital, on January 1 was $0. Cash $6,000 Accounts receivable 7,000 Equipment 9,000 Land 34,000 Accounts payable 3,000 Owner

investments 15,000 Mahomes, Withdrawals 22,000 Net income 60,000 Exercise 1-25 Analyzing return on assets A2 Swiss Group reports net income of $40,000 for the year. At the beginning of the year, Swiss Group had $200,000 in assets. By the end of the year, assets had grown to $300,000. What is Swiss Group's return on assets for the current year? Did Swiss Group perform better or worse than its competitors if competitors average an 11% return on assets?

	A		B		C
1	Assets	=	Liabilities	+	Equity
2	$ (a)		$ 20,000		$ 45,000
3	100,000		34,000		(b)
4	154,000		(c)		40,000

PROBLEM SET A Problem Set B, located at the end of Problem Set A, is provided for each problem to reinforce the learning process Problem 1-1A Identifying effects of transactions on financial statements P1 Identify how each of the following separate transactions 1 through 10 affects financial statements. For increases, place a "+" and the dollar amount in the column or columns. For decreases, place a "−" and the dollar amount in the column or columns. Some cells may contain both an increase (+) and a decrease (−) along with dollar amounts. The first transaction is completed as an example. Required For the balance sheet, identify how each transaction affects total assets, total liabilities, and total equity. For the income statement, identify how each transaction affects net income. For the statement of cash flows, identify how each transaction affects cash flows from operating activities, cash flows from investing activities, and cash flows from financing activities.Page 32 Table Summary: Chart provides cells to input how transaction amounts affect balance sheet, income statement, and statement of cash flows. The transaction number is listed in the first column. Columns three through five list balance sheet categories. Column six lists net income for income statement. Columns seven through nine list statement of cash flows categories. All cells are blank except for 3, 5, and 9 of row for Transaction 1. a. b. Balance Sheet Income Statement Statement of Cash Flows Transaction Total Assets Total Liab. Total Equity Net Income Operating Activities Investing Activities Financing Activities 1 Owner invests $900 cash in business +900 +900 +900 2 Receives $700 cash for services provided 3 Pays $500 cash for employee wages 4 Buys $100 of equipment on credit 5 Purchases $200 of supplies on credit 6 Buys equipment for $300 cash 7 Pays $200 on accounts payable 8 Provides $400 of services on credit 9 Owner withdraws $50 cash 10 Collects $400 cash on accounts receivable Problem 1-2A Computing missing information using accounting knowledge A1 The following financial statement information is from five separate companies. Table Summary: Table lists

financial statement information for five different companies. The first section is for Beginning of year, the second section is for End of year, and the last section is for Changes during the year. Missing information is denoted with a question mark set on a single rule. Company A Company B Company C Company D Company E Beginning of year Assets $55,000 $34,000 $24,000 $60,000 $119,000 Liabilities 24,500 21,500 9,000 40,000 ? End of year Assets 58,000 40,000 ? 85,000 113,000 Liabilities ? 26,500 29,000 24,000 70,000 Changes during the year Owner investments 6,000 1,400 9,750 ? 6,500 Net income (loss) 8,500 ? 8,000 14,000 20,000 Owner withdrawals 3,500 2,000 5,875 0 11,000 Required Answer the following questions about Company A. What is the amount of equity at the beginning of the year? What is the amount of equity at the end of the year? Check (1b) $41,500 What is the amount of liabilities at the end of the year? Answer the following questions about Company B. What is the amount of equity at the beginning of the year? What is the amount of equity at the end of the year? What is net income for the year? (2c) $1,600 Compute the amount of assets for Company C at the end of the year. (3) $55,875 Compute the amount of owner investments for Company D during the year. Compute the amount of liabilities for Company E at the beginning of the year. Page 33 Problem 1-3A Preparing an income statement P2 As of December 31 of the current year, Armani Company's records show the following. Cash $10,000 Accounts receivable 9,000 Supplies 7,000 Equipment 4,000 Accounts payable 11,000 Armani, Capital, Dec. 31, prior year 16,000 Armani, Capital, Dec. 31, current year 19,000 Armani, Withdrawals 13,000 Consulting revenue 33,000 Rental revenue 22,000 Salaries expense 20,000 Rent expense 12,000 Selling and administrative expenses 8,000 Required Prepare the income statement for Armani Company for the current year ended December 31. Check Net income, $15,000 Problem 1-4A Preparing a statement of owner's equity P2 Use the information in Problem 1-3A to prepare the statement of owner's equity for Armani Company for the current year ended December 31. Hint: The owner invested $1,000 cash during the year. Problem 1-5A Preparing a balance sheet P2 Use the information in Problem 1-3A to prepare the current year-end balance sheet for Armani Company. Problem 1-6A Preparing a statement of cash flows P2 Following is selected financial information of Kia Company for the current year ended December 31. Cash used by investing activities $(2,000) Net increase in cash 1,200 Cash used by financing activities (2,800) Cash from operating activities 6,000 Cash, December 31, prior year 2,300 Required Prepare the statement of cash flows for Kia Company for the current year ended December 31. CheckCash balance, Dec. 31, current year, $3,500 Problem 1-7A Analyzing transactions and preparing financial statements P1 P2 Gabi Gram started The Gram Co., a new business that began operations on May 1. The Gram Co. completed the

following transactions during its first month of operations. May 1 G. Gram invested $40,000 cash in the company. 1 The company rented a furnished office and paid $2,200 cash for May's rent. 3 The company purchased $1,890 of equipment on credit. 5 The company paid $750 cash for this month's cleaning services. 8 The company provided consulting services for a client and immediately collected $5,400 cash. 12 The company provided $2,500 of consulting services for a client on credit. 15 The company paid $750 cash for an assistant's salary for the first half of this month. 20 The company received $2,500 cash payment for the services provided on May 12. 22 The company provided $3,200 of consulting services on credit. 25 The company received $3,200 cash payment for the services provided on May 22. 26 The company paid $1,890 cash for the equipment purchased on May 3. 27 The company purchased $80 of equipment on credit. 28 The company paid $750 cash for an assistant's salary for the second half of this month. 30 The company paid $300 cash for this month's telephone bill. 30 The company paid $280 cash for this month's utilities. 31 G. Gram withdrew $1,400 cash from the company for personal use.Page 34 Required Create the following table similar to Exhibit 1.9. Enter the effects of each transaction on the accounts of the accounting equation by recording dollar increases and decreases in the appropriate columns. Determine the final total for each account and verify that the equation is in balance. Table Summary:Table details. Assets = Liabilities + Equity Date Cash + Accounts Receivable + Equipment = Accounts Payable + G. Gram, Capital − G. Gram, Withdrawals + Revenues − Expenses Check(1) Ending balances: Cash, $42,780; Expenses, $5,030 Prepare the income statement and the statement of owner's equity for the month of May, and the balance sheet as of May 31. (2) Net income, $6,070; Total assets, $44,750 Prepare the statement of cash flows for the month of May. Problem 1-8A Analyzing effects of transactions P1 P2 Lita Lopez started Biz Consulting, a new business, and completed the following transactions during its first year of operations. Lita Lopez invested $70,000 cash and equipment valued at $10,000 in the company. The company purchased a building for $40,000 cash. The company purchased equipment for $15,000 cash. The company purchased $1,200 of supplies and $1,700 of equipment on credit. The company paid $500 cash for advertising expenses. The company completed a financial plan for a client and billed that client $2,800 for the service. The company designed a financial plan for another client and immediately collected a $4,000 cash fee. L. Lopez withdrew $3,275 cash from the company for personal use. The company received $1,800 cash as partial payment from the client described in transaction f. The company made a partial payment of $700 cash on the equipment purchased in transaction d. The company paid $1,800 cash for the secretary's wages for this period. Required Create the following table similar to Exhibit 1.9. Use additions and subtractions within the table to show the dollar effects of each transaction on individual items of the accounting equation. Show new balances after each transaction. Table Summary:Table details. Assets =

Liabilities + Equity Cash + Accounts Receivable + Supplies + Equipment + Building = Accounts Payable + L. Lopez, Capital – L. Lopez, Withdrawals + Revenues – Expenses Check (1) Ending balances: Cash, $14,525; Expenses, $2,300; Accounts Payable, $2,200 Determine the company's net income. (2) Net income, $4,500 Problem 1-9A Analyzing transactions and preparing financial statements P1 P2 Sanyu Sony started a new business and completed these transactions during December. Dec. 1 Sanyu Sony transferred $65,000 cash from a personal savings account to a checking account in the name of Sony Electric. 2 The company paid $1,000 cash for the December rent. 3 The company purchased $13,000 of electrical equipment by paying $4,800 cash and agreeing to pay the $8,200 balance in 30 days. 5 The company purchased supplies by paying $800 cash. 6 The company completed electrical work and immediately collected $1,200 cash for these services. 8 The company purchased $2,530 of office equipment on credit. 15 The company completed electrical work on credit in the amount of $5,000. 18 The company purchased $350 of supplies on credit. 20 The company paid $2,530 cash for the office equipment purchased on December 8. 24 The company billed a client $900 for electrical work completed; the balance is due in 30 days. 28 The company received $5,000 cash for the work completed on December 15. 29 The company paid the assistant's salary of $1,400 cash for this month. 30 The company paid $540 cash for this month's utility bill. 31 Sanyu Sony withdrew $950 cash from the company for personal use.Page 35 Required Create the following table similar to Exhibit 1.9. Use additions and subtractions within the table to show the dollar effects of each transaction on individual items of the accounting equation. Show new balances after each transaction. Table Summary:Table details. Assets = Liabilities + Equity Date Cash + Accounts Receivable + Supplies + Office Equipment + Electrical Equipment = Accounts Payable + S. Sony, Capital – S. Sony, Withdrawals + Revenues – Expenses Check(1) Ending balances: Cash, $59,180; Accounts Payable, $8,550 Prepare the income statement and the statement of owner's equity for the current month, and the balance sheet as of the end of the month. (2) Net income, $4,160; Total assets, $76,760 Prepare the statement of cash flows for the current month. Analysis Component Assume that the owner investment transaction on December 1 was $49,000 cash instead of $65,000 and that Sony Electric obtained another $16,000 in cash by borrowing it from a bank. Compute the dollar effect of this change on the month-end amounts for (a) total assets, (b) total liabilities, and (c) total equity. Problem 1-10A Determining expenses, liabilities, equity, and return on assets A1 A2 Kyzera manufactures, markets, and sells cellular telephones. The average total assets for Kyzera is $250,000. In its most recent year, Kyzera reported net income of $65,000 on revenues of $475,000. Required What is Kyzera's return on assets? Does return on assets seem satisfactory for Kyzera given that its competitors average a 12% return on assets? What are total expenses for Kyzera in its most recent year? Check (3) $410,000 What is the average total amount of

liabilities plus equity for Kyzera? (4) $250,000 Problem 1-11A Computing and interpreting return on assets A2 Coca-Cola and PepsiCo both produce and market beverages that are direct competitors. Key financial figures for these businesses for a recent year follow. Table Summary: A table. Key Figures ($ millions) Coca-Cola PepsiCo Sales $46,542 $66,504 Net income 8,634 6,462 Average assets 76,448 70,518 Required Compute return on assets for (a) Coca-Cola and (b) PepsiCo. Check (1a) 11.3%; (1b) 9.2% Which company is more successful in its total amount of sales to consumers? Which company is more successful in returning net income from its assets invested?

PROBLEM SET B Problem 1-1B Identifying effects of transactions on financial statements P1 Identify how each of the following separate transactions 1 through 10 affects financial statements. For increases, place a "+" and the dollar amount in the column or columns. For decreases, place a "−" and the dollar amount in the column or columns. Some cells may contain both an increase (+) and a decrease (−) along with dollar amounts. The first transaction is completed as an example. Required For the balance sheet, identify how each transaction affects total assets, total liabilities, and total equity. For the income statement, identify how each transaction affects net income. For the statement of cash flows, identify how each transaction affects cash flows from operating activities, cash flows from investing activities, and cash flows from financing activities.Page 36 Table Summary: Chart provides cells to input how transaction amounts affect balance sheet, income statement, and statement of cash flows. The transaction number is listed in the first column. Columns three through five list balance sheet categories. Column six lists net income for income statement. Columns seven through nine list statement of cash flows categories. All cells are blank except for 3, 5, and 9 of row for Transaction 1. a. b. Balance Sheet Income Statement Statement of Cash Flows Transaction Total Assets Total Liab. Total Equity Net Income Operating Activities Investing Activities Financing Activities 1 Owner invests $800 cash in business +800 +800 +800 2 Purchases $100 of supplies on credit 3 Buys equipment for $400 cash 4 Provides services for $900 cash 5 Pays $400 cash for rent incurred 6 Buys $200 of equipment on credit 7 Pays $300 cash for wages incurred 8 Owner withdraws $50 cash 9 Provides $600 of services on credit 10 Collects $600 cash on accounts receivable Problem 1-2B Computing missing information using accounting knowledge A1 The following financial statement information is from five separate companies. Table Summary: Table lists financial statement information for five different companies. The first section is for Beginning of year, the second section is for End of year, and the last section is for Changes during the year. Missing information is denoted with a

question mark set on a single rule. Company V Company W Company X Company Y Company Z Beginning of year Assets $54,000 $ 80,000 $141,500 $92,500 $144,000 Liabilities 25,000 60,000 68,500 51,500 ? End of year Assets 59,000 100,000 186,500 ? 170,000 Liabilities 36,000 ? 65 ,800 42,000 42,000 Changes during the year Owner investments 5,000 20,000 ? 48,100 60,000 Net income (or loss) ? 40,000 18,500 24,000 32,000 Owner withdrawals 5,500 2,000 0 20,000 8,000 Required Answer the following questions about Company V. What is the amount of equity at the beginning of the year? What is the amount of equity at the end of the year? Check(1b) $23,000 What is the net income or loss for the year? Answer the following questions about Company W. What is the amount of equity at the beginning of the year? What is the amount of equity at the end of the year? What is the amount of liabilities at the end of the year? (2c) $22,000 Compute the amount of owner investments for Company X during the year. Compute the amount of assets for Company Y at the end of the year. (4) $135,100 Compute the amount of liabilities for Company Z at the beginning of the year. Page 37 Problem 1-3B Preparing an income statement P2 As of December 31 of the current year, Audi Company's records show the following. Cash $2,000 Accounts receivable 1,800 Supplies 1,200 Equipment 1,000 Accounts payable 3,600 Audi, Capital, Dec. 31, prior year 1,900 Audi, Capital, Dec. 31, current year 2,400 Audi, Withdrawals 2,600 Consulting revenue 6,600 Rental revenue 4,400 Salaries expense 4,000 Rent expense 2,400 Selling and administrative expenses 1,600 Required Prepare the income statement for Audi Company for the current year ended December 31. Check Net income, $3,000 Problem 1-4B Preparing a statement of owner's equity P2 Use the information in Problem 1-3B to prepare the statement of owner's equity for Audi Company for the current year ended December 31. Hint: The owner invested $100 cash during the year. Problem 1-5B Preparing a balance sheet P2 Use the information in Problem 1-3B to prepare the current year-end balance sheet for Audi Company. Problem 1-6B Preparing a statement of cash flows P2 Selected financial information of Banji Company for the current year ended December 31 follows. Cash from investing activities $1,600 Net increase in cash 400 Cash from financing activities 1,800 Cash used by operating activities (3,000) Cash, December 31, prior year 1,300 Required Prepare the statement of cash flows for Banji Company for the current year ended December 31. Problem 1-7B Analyzing transactions and preparing financial statements P1 P2 Nina Niko launched a new business, Niko's Maintenance Co., that began operations on June 1. The following transactions were completed by the company during that first month. June 1 Nina Niko invested $130,000 cash in the company. 2 The company rented a furnished office and paid $6,000 cash for June's rent. 4 The company purchased $2,400 of equipment on credit. 6 The company paid $1,150 cash for this month's advertising of the opening of the business. 8 The company

completed maintenance services for a customer and immediately collected $850 cash. 14 The company completed $7,500 of maintenance services for City Center on credit. 16 The company paid $800 cash for an assistant's salary for the first half of the month. 20 The company received $7,500 cash payment for services completed for City Center on June 14. 21 The company completed $7,900 of maintenance services for Paula's Beauty Shop on credit. 24 The company completed $675 of maintenance services for Build-It Coop on credit. 25 The company received $7,900 cash payment from Paula's Beauty Shop for the work completed on June 21. 26 The company made payment of $2,400 cash for equipment purchased on June 4. 28 The company paid $800 cash for an assistant's salary for the second half of this month. 29 Nina Niko withdrew $4,000 cash from the company for personal use. 30 The company paid $150 cash for this month's telephone bill. 30 The company paid $890 cash for this month's utilities.Page 38 Required Create the following table similar to Exhibit 1.9. Enter the effects of each transaction on the accounts of the accounting equation by recording dollar increases and decreases in the appropriate columns. Determine the final total for each account and verify that the equation is in balance. Table Summary:Table a. Assets = Liabilities + Equity Date Cash + Accounts Receivable + Equipment = Accounts Payable + N. Niko, Capital – N. Niko, Withdrawals + Revenues – Expenses Check(1) Ending balances: Cash, $130,060; Expenses, $9,790 Prepare the income statement and the statement of owner's equity for the month of June, and the balance sheet as of June 30. (2) Net income, $7,135; Total assets, $133,135 Prepare the statement of cash flows for the month of June. Problem 1-8B Analyzing effects of transactions P1 P2 Neva Nadal started a new business, Nadal Computing, and completed the following transactions during its first year of operations. Neva Nadal invested $90,000 cash and equipment valued at $10,000 in the company. The company purchased a building for $50,000 cash. The company purchased equipment for $25,000 cash. The company purchased $1,200 of supplies and $1,700 of equipment on credit. The company paid $750 cash for advertising expenses. The company completed a financial plan for a client and billed that client $2,800 for the service. The company designed a financial plan for another client and immediately collected a $4,000 cash fee. Neva Nadal withdrew $11,500 cash from the company for personal use. The company received $1,800 cash from the client described in transaction f. The company made a payment of $700 cash on the equipment purchased in transaction d. The company paid $2,500 cash for the secretary's wages. Required Create the following table similar to Exhibit 1.9. Use additions and subtractions within the table to show the dollar effects of each transaction on individual items of the accounting equation. Show new balances after each transaction. Table Summary:Table a. Assets = Liabilities + Equity Cash + Accounts Receivable + Supplies + Equipment + Building = Accounts Payable + N. Nadal, Capital – N. Nadal, Withdrawals + Revenues – Expenses Check(1) Ending balances: Cash, $5,350; Expenses,

$3,250; Accounts Payable, $2,200 Determine the company's net income. (2) Net income, $3,550 Problem 1-9B Analyzing transactions and preparing financial statements P1 P2 Rivera Roofing Company, owned by Reyna Rivera, began operations in July and completed these transactions during that first month of operations. July 1 Reyna Rivera invested $80,000 cash in the company. 2 The company paid $700 cash for the July rent. 3 The company purchased roofing equipment for $5,000 by paying $1,000 cash and agreeing to pay the $4,000 balance in 30 days. 6 The company purchased supplies for $600 cash. 8 The company completed work for a customer and immediately collected $7,600 cash for the work. 10 The company purchased $2,300 of office equipment on credit. 15 The company completed work for a customer on credit in the amount of $8,200. 17 The company purchased $3,100 of supplies on credit. 23 The company paid $2,300 cash for the office equipment purchased on July 10. 25 The company billed a customer $5,000 for work completed; the balance is due in 30 days. 28 The company received $8,200 cash for the work completed on July 15. 30 The company paid an assistant's salary of $1,560 cash for this month. 31 The company paid $295 cash for this month's utility bill. 31 Reyna Rivera withdrew $1,800 cash from the company for personal use.Page 39 Required Create the following table similar to Exhibit 1.9. Use additions and subtractions within the table to show the dollar effects of each transaction on individual items of the accounting equation. Show new balances after each transaction. Table Summary:Table details. Assets = Liabilities + Equity Date Cash + Accounts Receivable + Supplies + Office Equipment + Roofing Equipment = Accounts Payable + R. Rivera, Capital − R. Rivera, Withdrawals + Revenues − Expenses Check(1) Ending balances: Cash, $87,545; Accounts Payable, $7,100 Prepare the income statement and the statement of owner's equity for the month of July, and the balance sheet as of July 31. (2) Net income, $18,245; Total assets, $103,545 Prepare the statement of cash flows for the month of July. Analysis Component Assume that the $5,000 purchase of roofing equipment on July 3 was financed from an owner investment of another $5,000 cash in the business (instead of the purchase conditions described in the transaction above). Compute the dollar effect of this change on the month-end amounts for (a) total assets, (b) total liabilities, and (c) total equity. Problem 1-10B Determining expenses, liabilities, equity, and return on assets A1 A2 Ski-Doo Company manufactures, markets, and sells snowmobiles and snowmobile equipment and accessories. The average total assets for Ski-Doo is $3,000,000. In its most recent year, Ski-Doo reported net income of $201,000 on revenues of $1,400,000. Required What is Ski-Doo Company's return on assets? Does return on assets seem satisfactory for Ski-Doo given that its competitors average a 9.5% return on assets? What are the total expenses for Ski-Doo Company in its most recent year? Check(3) $1,199,000 What is the average total amount of liabilities plus equity for Ski-Doo Company? (4) $3,000,000 Problem 1-11B Computing and interpreting return on assets A2 AT&T and Verizon produce and market

telecommunications products and are competitors. Key financial figures for these businesses for a recent year follow. Table Summary: A table. Key Figures ($ millions) AT&T Verizon Sales $126,723 $110,875 Net income 4,184 10,198 Average assets 269,868 225,233 Required Compute return on assets for (a) AT&T and (b) Verizon. Check(1a) 1.6%; (1b) 4.5% Which company is more successful in the total amount of sales to consumers? Which company is more successful in returning net income from its assets invested? Analysis Component Write a one-paragraph memorandum explaining which company you would invest your money in and why. (Limit your explanation to the information provided.)

Page 40 SERIAL PROBLEM Serial Problem starts here and follows the same company throughout the text. It is available in Connect. Business Solutions P1 Alexander Image/Shutterstock SP 1 On October 1, 2021, Santana Rey launched a computer services company, Business Solutions, that is organized as a proprietorship and provides consulting services, computer system installations, and custom program development. Required Create a table like Exhibit 1.9 using these headings: Cash; Accounts Receivable; Computer Supplies; Computer System; Office Equipment; Accounts Payable; S. Rey, Capital; S. Rey, Withdrawals; Revenues; and Expenses. Use additions and subtractions within the table to show the dollar effects for each of the following transactions on the individual items of the accounting equation. Show new balances after each transaction. Oct. 1 S. Rey invested $45,000 cash, a $20,000 computer system, and $8,000 of office equipment in the company. 3 The company purchased $1,420 of computer supplies on credit. 6 The company billed Easy Leasing $4,800 for services performed in installing a new web server. 8 The company paid $1,420 cash for the computer supplies purchased on credit on October 3. 10 The company hired a part-time assistant. 12 The company billed Easy Leasing another $1,400 for services performed. 15 The company received $4,800 cash from Easy Leasing as partial payment toward its account. 17 The company paid $805 cash to repair its computer equipment. 20 The company paid $1,728 cash for advertisements published on Facebook. 22 The company received $1,400 cash from Easy Leasing toward its account. 28 The company billed IFM Company $5,208 for services performed. 31 The company paid $875 cash for the assistant's wages for this month. 31 S. Rey withdrew $3,600 cash from the company for personal use. CheckEnding balances: Cash, $42,772; Revenues, $11,408; Expenses, $3,408

TABLEAU DASHBOARD ACTIVITIES Tableau Dashboard Activities expose students to accounting analytics using visual displays. These assignments (1) do not require instructors to know Tableau, (2) are accessible to introductory students, (3) do not require

Tableau software, and (4) run in Connect. All are auto-gradable. Chapter 1 analytics assignments follow. Tableau DA 1-1 Quick Study, Applying the accounting equation, A1—similar to QS 1-7. Tableau DA 1-2 Exercise, Applying the accounting equation and identifying balance sheet accounts, A1, P2—similar to QS 1-8 and Exercise 1-9. Tableau DA 1-3 Mini-Case, Preparing an income statement, A1, P2—similar to QS 1-15 and Exercise 1-18.

Accounting Analysis Accounting Analysis (AA) assignments refine analysis and critical thinking skills and are auto-gradable in Connect. They can be assigned for each chapter or as a group for a financial statement analysis project. COMPANY ANALYSIS A1 A2 AA 1-1 Key financial figures for Apple's two most recent fiscal years follow. Table Summary: Spanner head over columns 2 and 3 is Apple. Spanner head over columns 4 and 5 is Google. $ millions Current Year Prior Year Liabilities + Equity $338,516 $365,725 Net income 55,256 59,531 Revenues 260,174 265,595 Required What is the total amount of assets invested in Apple in the current year? What is Apple's return on assets for the current year? How much are total expenses for Apple for the current year? Is Apple's current year return on assets better or worse than competitors' average return of 10%? Page 41 COMPARATIVE ANALYSIS A1 A2 AA 1-2 Key comparative figures for both Apple and Google follow. Table Summary: Spanner head over columns 2 and 3 is Samsung. Spanner head over column 4 is Apple and over column 5 is Google. Apple Google $ millions Current Year Prior Year Current Year Prior Year Liabilities + Equity $338,516 $365,725 $275,909 $232,792 Net income 55,256 59,531 34,343 30,736 Revenues 260,174 265,595 161,857 136,819 Required What is the total amount of assets invested for the current year in (a) Apple and (b) Google? What is the current year return on assets for (a) Apple and (b) Google? How much are current year expenses for (a) Apple and (b) Google? Is the current year return on assets better than the 10% return of competitors for (a) Apple and (b) Google? Relying only on return on assets, would we invest in Google or Apple? Note: Reference to Google throughout the text refers to Alphabet Inc., as Google is a wholly owned subsidiary of Alphabet. EXTENDED ANALYSIS A1 A2 AA 1-3 Samsung is a leading global manufacturer that competes with Apple and Google. Key financial figures for Samsung follow. Table Summary: A table. Samsung Apple Google $ millions Current Year Prior Year Current Year Current Year Average assets $296,845 $282,723 $352,121 $254,351 Net income 18,653 38,049 55,256 34,343 Revenues 197,691 209,163 260,174 161,857 Required What is the return on assets for Samsung in the (a) current year and (b) prior year? Does Samsung's return on assets exhibit a favorable or unfavorable change? Is Samsung's current year return on assets better or worse than that for (a) Apple and (b) Google?

Discussion Questions What is the purpose of accounting in society? Technology is increasingly used to process accounting data. Why then must we study and understand accounting? Identify four kinds of external users and describe how they use accounting information. What are at least three questions business owners and managers might be able to answer by looking at accounting information? Identify three actual businesses that offer services and three actual businesses that offer products. Describe the internal role of accounting for organizations. Identify three types of services typically offered by accounting professionals. What type of accounting information might be useful to the marketing managers of a business? Why is accounting described as a service activity? What are some accounting-related professions? How do ethics rules affect auditors' choice of clients? What work do tax accounting professionals perform in addition to preparing tax returns? What does the concept of objectivity imply for information reported in financial statements? A business reports its own office stationery on the balance sheet at its $400 cost, although it cannot be sold for more than $10 as scrap paper. Which accounting principle and/or assumption justifies this treatment? Why is the revenue recognition principle needed? What does it demand? Describe the four basic forms of business organization and their key attributes.Page 42 Define (a) assets, (b) liabilities, (c) equity, and (d) net assets. What events or transactions change equity? Identify the two main categories of accounting principles. What do accountants mean by the term revenue? Define net income and explain its computation. Identify the four basic financial statements of a business. What information is reported in an income statement? Give two examples of expenses a business might incur. What is the purpose of the statement of owner's equity? What information is reported in a balance sheet? The statement of cash flows reports on what major activities? Define and explain return on assets.

Beyond the Numbers Beyond the Numbers (BTN) assignments refine communication, conceptual, analysis, and research skills and can help develop an active learning environment. ETHICS CHALLENGE C2 BTN 1-1 Tana Thorne works in a public accounting firm and hopes to eventually be a partner. The management of Allnet Company invites Thorne to prepare a bid to audit Allnet's financial statements. In discussing the audit fee, Allnet's management suggests a fee range in which the amount depends on the reported profit of Allnet. The higher its profit, the higher will be the audit fee paid to Thorne's firm. Required Identify the parties potentially affected by this audit and the fee plan proposed. What are the ethical factors in this situation? Explain. Would you recommend that Thorne accept this audit fee arrangement? Why or why not? Describe some ethical considerations

guiding your recommendation. COMMUNICATING IN PRACTICE C1 C2 BTN 1-2 Refer to Apple's financial statements in Appendix A. Assume that the owners, sometime during their first five years of business, desire to expand their computer product services to meet business demand regarding computing services. They eventually decide to meet with their banker to discuss a loan to allow Apple to expand and offer computing services. Required Prepare a half-page report outlining the information you would request from the owners if you were the loan officer. Indicate whether the information you request and your loan decision are affected by the form of business organization for Apple. TEAMWORK IN ACTION C1 BTN 1-3 Teamwork is important in today's business world. Successful teams schedule convenient meetings, maintain regular communications, and cooperate with and support their members. This assignment aims to establish support/learning teams, initiate discussions, and set meeting times. Required Form teams and open a team discussion to determine a regular time and place for your team to meet between each scheduled class meeting. Notify your instructor via a memorandum or e-mail message as to when and where your team will hold regularly scheduled meetings. Develop a list of telephone numbers, LinkedIn pages, and/or e-mail addresses of your teammates. Page 43 ENTREPRENEURIAL DECISION A1 A2 BTN 1-4 Refer to this chapter's opening feature about Netflix. Assume that the owner decides to open a new company with an innovative mobile app devoted to microblogging for accountants and those learning accounting. This new company will be called AccountApp. Required AccountApp obtains a $500,000 loan, and the owner contributes $250,000 in total from his own savings in exchange for ownership of the new company. What is the new company's total amount of liabilities plus equity? What is the new company's total amount of assets? If the new company earns $80,250 in net income in the first year of operation, compute its return on assets (assume average assets equal $750,000). Assess its performance if competitors average a 10% return. Check(2) 10.7% Design Element: ©Danil Melekhin/Getty Images